UNITED STATES OF AMERICA
BEFORE THE
INTERNATIONAL TRADE COMMISSION

IN THE MATTER OF: ) Investigation Nos.:
SOFTWOOD LUMBER FROM CANADA ) 701-TA-566 AND 731-TA-1342
) (FINAL)

Main Hearing Room (Room 101)
U.S. International Trade Commission
500 E Street, SW
Washington, DC
Tuesday, September 12, 2017

The meeting commenced pursuant to notice at 9:33 a.m., before the Commissioners of the United States International Trade Commission, the Honorable Rhonda K. Schmidtlein, Chairman, presiding.
APPEARANCES:
On behalf of the International Trade Commission:

Commissioners:

Chairman Rhonda K. Schmidtlein (presiding)
Vice Chairman David S. Johanson
Commissioner Irving A. Williamson
Commissioner Meredith M. Broadbent

Staff Present:

William Bishop, Supervisory Hearings and Information Officer
Sharon Bellamy, Records Management Specialist
Yasmyne Hilliard, Student Intern
Fred Ruggles, Investigator
Sarah Scott, International Trade Analyst
Andrew Knipe, International Economist
Charles Yost, Accountant/Auditor
Robin Turner, Attorney/Advisor
Elizabeth Haines, Supervisory Investigator
Congressional Appearances:
The Honorable Ron Wyden, United States Senator, Oregon
The Honorable Jon Tester, United States Senator, Montana
The Honorable Roger F. Wicker, United States Senator, Mississippi
The Honorable Steve Daines, United States Senator, Montana

Opening Remarks:
Petitioner (Andrew W. Kentz, Picard Kentz & Rowe LLP)
Respondents (Eric S. Parnes, Hughes Hubbard & Reed LLP)

In Support of the Imposition of Antidumping and Countervailing Duty Orders:
Picard Kentz & Rowe LLP
Washington, DC
on behalf of
Committee Overseeing Action for Lumber International Trade
Steven Banahan, Lumber Sales Manager, Pleasant River Lumber Company Inc.
Mark Benson, Vice President, Public Affairs, Potlach Corporation
Adrian Blocker, Senior Vice President, Wood Products, Weyerhaueser Company
Caroline Dauzat, Owner, Rex Lumber Co.
Tony Hadley, Executive Secretary-Treasurer, Carpenters Industrial Council
Bill Howard, Owner and General Manager, Claude Howard Lumber, Inc.

Andrew Miller, President and Chief Executive Officer, Stimson Lumber Company

Chuck Roady, Director, F.H. Soltze Land & Lumber Company

Steve Swanson, President and Chief Executive Officer, Swanson Group

Susan B. Hester, Ph.D., Economist, Moongate Associates, Inc.

Deanna Tanner Okun, of Counsel, Adduci, Mastriani & Schaumberg LLP

Andrew W. Kentz and David A. Yocis - Of Counsel

In Opposition to the Imposition of Antidumping and Countervailing Duty Orders:

Hughes Hubbard & Reed LLP

Washington, DC

on behalf of

Government of Canada

James P. Dougan, Vice President, Economic Consulting Services, LLC

Cara Groden, Senior Economist, Economic Consulting Services, LLC

Kivanc Kirgiz, Vice President, Cornerstone Research
Matthew R. Nicely, Eric S. Parnes and Julia K. Eppert
- Of Counsel

Morris Manning & Martin LLP
Washington, DC
on behalf of
Canfor Corporation
Mark Feldinger, Senior Vice President, Energy,
Environment, Transportation and Sourcing, Canfor Corporation
Donald B. Cameron - Of Counsel

Mowry & Grimson, PLLC
Washington, DC
on behalf of
National Association of Home Builders ("NAHB")
Thomas Baalmann, Owner/General Manager, B & B Lumber
Edward Martin, President and Chief Executive Officer,
Tilison Home Corporation
Jeffrey S. Grimson and Kristin H. Mowry - Of Counsel
Baker & Hosteller LLP  
Washington, DC  
on behalf of  
Conseil de l'Industrie forestière du Québec ("CFIQ")  
Ontario Forest Industries Association ("OFIA")  
Resolute Forest Products Inc.
   Elliot J. Feldman and Michael Snarr - Of Counsel

Steptoe & Johnson  
Washington, DC  
on behalf of  
British Columbia Lumber Trade Council ("BCLTC")  
Mark A. Moran, Matthew A. Frumin and Alexandra Baj - Of Counsel

Cassidy Levy Kent (USA) LLP  
Washington, DC  
on behalf of  
Interfor Corporation  
Western Forest Products Inc.
   Downie Timber/Selkirk Cedar
      Rob Marusic, Sales Manager, Downie Timber/Selkirk Cedar
   Myles S. Getlan and Jonathan Zielinski - Of Counsel
FisherBroyles LLP
Washington, DC
on behalf of
Oregon-Canadian Forest Products, Inc.; Rogue Valley Door;
Northwest Clearwoods, Inc.; Bright Wood Corporation;
Matthaeis Camco, Inc.; Siskiyou Forest Products; Fred Tebb and
Sons, Inc. and EMS Manufacturing (collectively, the
"Companies")

John Grove, Vice President, Purchasing & Export,
Oregon-Canadian Forest Products, Inc.

Philip S. Gallas and Geoffrey Goodale - Of Counsel

Rebuttal/Closing Remarks:
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MR. BISHOP: Will the room please come to order?

CHAIRMAN SCHMIDTLEIN: Good morning. On behalf of the U.S. International Trade Commission, I welcome you to this hearing on investigation numbers 701-TA-566 and 731-TA-1342, final involving softwood lumber products from Canada.

The purpose of these investigations is to determine whether an industry is the -- in the United States is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of imports of softwood lumber products from Canada.

Schedules setting forth the presentation of this hearing, notices of investigation, and transcript order forms are available at the public distribution table. All prepared testimony should be given to the Secretary. Please do not place testimony directly on the public distribution table. All witnesses must be sworn in by the Secretary before presenting testimony.

I understand that parties aware of the time allocations. Any questions regarding the time allocations should be directed to the Secretary.

Speakers are reminded not to refer in their remarks or answers to questions to business proprietary
information. Please speak clearly into the microphones and
state your name for the record for the benefit of our court reporter.

If you will be submitting documents that contain
information you wish classified as business confidential,
your requests should comply with Commission Rule 201.6.

Mr. Secretary, are there any preliminary matters?

MR. BISHOP: No madam, chairman.

CHAIRMAN SCHMIDTLEIN: Very well, will you please announce our first Congressional witness?

MR. BISHOP: Our first Congressional witness is the Honorable Ron Wyden, United States senator from Oregon.

CHAIRMAN SCHMIDTLEIN: Welcome, Senator Wyden, you may been when you're ready.

STATEMENT OF SENATOR RON WyDEN

SENATOR WYDEN: Thank you very much, madam chair. And to you madam chair and your colleagues, thank you very much for the courtesy of giving me the opportunity to come and on a hectic day in the United States Senate, the opportunity to also lead off. I'm very appreciative and let me, if I might, start this way.

I think we all understand that market distorting Canadian forest policies have plagued our lumber industry now for decades. The problem is simple. Canada's provinces
allow lumber companies to harvest trees from government timberlands at rock bottom bargain rates. This creates an incentive for the Canadians to cut more trees to produce more lumber, and then sell that lumber at cheap rates in our country. As the Commerce Department preliminarily found, Canadian producers are selling dumped and subsidized lumber throughout America.

American lumber companies are some of the most efficient and competitive in the world. But over time, these market distorting Canadian practices have unfairly harmed our producers and eroded their ability to compete in tough global markets. Subsidies artificially inflate Canadian company profits and they insulate the Canada mills from market downturns. Then U.S. mills are forced to bear the brunt of soft markets, which contributes to even more U.S. mill closings and lay offs. Even in an up market, our mills are at a disadvantage. Their profitability is suppressed and they're unable to add jobs or invest in mills at the pace that they were otherwise pursue. U.S. timberland owners are also hurt as the value of their land declines in response to losses in the U.S. industry.

Fundamentally, this case is about American jobs and it's about ensuring a fair shake for our companies and our workers. Canada subsidies have contributed to lost jobs and lost opportunities for more than 350,000 Americans
employed at saw mills and wood preservation industries in our country. And it also had caused declining land values for 11 million American private land owners.

Mill jobs are especially crucial for rural communities. They often pay well, high skilled jobs that don't always require a college degree, but provide valuable training. When the mill jobs are lost, whole communities suffer in rural Oregon and rural America.

Fewer customers at the diner down the street, fewer dollars to spend at the hardware store, more worried families struggling to make ends meet, this is the by-product of these policies that I'm describing.

What's especially troubling for U.S. saw mill workers in mill communities is that even when mills are up, the jobs don't come roaring back. Employment, production, and investment remain suppressed. And as you're going to hear today, Canadian forest policies are key to that. And I have seen this phenomenon play out first hand in my home state.

Now forestry has always been enormously important to Oregon. And that has been the case for literally centuries. Even now, in some Oregon communities, more than one in four jobs depend on the forestry sector. In the past few years, there's been very substantial consumer demand from the United States for lumber. Yet
even when the markets are strong, subsidized Canadian mills have taken market share from my constituents. This has left Oregon mill owners unable to add jobs, unable to invest in their mills to the extent that they would in the absence of Canadian subsidies. As a result, mill workers in communities in my state continue to struggle.

As the ranking Democrat on the Senate Finance Committee, I'm committed to standing up for all American workers through tough trade enforcement. It's absolutely vital that our country fully enforce trade laws and address unfair trade. The Congress made clear that that was central, central to the trade enforcement issue I've described when it passed a package of substantial improvements to the enforcement of U.S. trade laws in 2015.

As part of that package, the Congress made clear that the Commission cannot conclude that a U.S. industry is not harmed by unfairly traded imports simply because the industry is profitable or the performance is improving. So just because markets get better, or the company happens to find another path out of the red, that doesn't mean that the Commission is absolved from addressing underlying problems of unfair trade.

The Congress also made clear that the Commission should consider the full range of factors when considering the impact of unfair trade on domestic industry.
So I'll close and I thank you again for your courtesy in terms of making time at this beginning of the hearing. I believe it is critical that the Commission tackle the impacts of unfair trade on U.S. industries, including the lumber industry, not just when companies are on the brink of bankruptcy. Not just in down markets, but whenever the evidence demonstrates that companies are harmed by unfairly traded imports. I see this as a central obligation of my work as a ranking Democrat on the Senate Finance Committee. I believe American workers deserve nothing less. And I close again by expressing my appreciation for the important work the Commission does and for your courtesy to me this morning.

CHAIRMAN SCHMIDTLEIN: Thank you, Senator Wyden.

MR. WYDEN: Thank you.

CHAIRMAN SCHMIDTLEIN: Are there any questions for Senator Wyden? No, thank you very much.

MR. WYDEN: Thank you all.

MR. BISHOP: Madam Chairman, our next Congressional witness is the Honorable Roger F. Wicker, United States State Senator from Mississippi.

CHAIRMAN SCHMIDTLEIN: Welcome, Senator Wicker. You may begin when you're ready.

STATEMENT OF ROGER F. WICKER

SENATOR WICKER: Thank you, madam chair and
members of the Commission. It is an honor and privilege for me to be with you today and to join on a bipartisan basis my friend and colleague from Oregon.

As you know, the U.S. lumber industry is highly competitive. It is also among the most efficient lumber industries in the world. I'm confident that a level playing field would allow the industry to grow and meet demand.

The U.S. lumber industry has vast untapped potential that could provide good manufacturing jobs for Americans, investment returns, and economic growth for our country. I greatly appreciate the opportunity to offer my support for the U.S. lumber industry today. And I would like to highlight several important issues of concern as you weigh your final determination.

Subsidized Canada timber gives Canadian producers an unfair cost advantage. The Canadian industry's only real advantage over the United States is its access to subsidized Canada timberlands. This dramatically, but artificially lowers Canada costs of production. There are lower costs for logs and greater Canada lumber production levels. Without the enforcement of existing trade laws against subsidized lumber imports, differences between mostly private American timber sale systems on mostly public Canadian timber sale systems give Canadian producers an unfair cost advantage and severely distorts the market.
Government aid allows Canadian producers to have lower costs and higher profits during normal market environments, increasing their ability to make capital investments and build cash reserves.

In addition to these massive government subsidies, Canada producers were found by the Department of Commerce in its preliminary determination earlier this year to be dumping their lumber production in the U.S. market, further injuring U.S. lumber producers. Thousands of U.S. jobs are at risk.

The American softwood lumber industry is an important part of the U.S. manufacturing base, creating needed jobs in hardworking communities. In many communities, a lumber producer is the single largest and sometimes only source of employment.

In my home state, forestry related businesses employ over 43,000 Mississippians with payrolls totaling over $1.6 billion. And as my colleague from Oregon said, there are more than 350,000 direct and indirect jobs that the U.S. saw mill and preservation industry generates across America. These jobs should not be put at risk.

It is incumbent upon us to work toward an environment in which the timber industry can invest in itself and grow to its potential. The United States has the natural resources necessary to grow its saw milling capacity
to supply its own market more fully. And it is the duty of
the United States government to ensure that the industry is
given that opportunity.

There are real people out there and real jobs at
stake for Americans. And I appreciate your attention to
this important issue.

CHAIRMAN SCHMIDTLEIN: Thank you very much. Are
there any questions for Senator Wicker?

All right, thank you very much.

MR. WICKER: Thank you.

MR. BISHOP: Madam chairman, that concludes our
Congressional testimony at this time.

CHAIRMAN SCHMIDTLEIN: All right. Thank you.

We will now move to opening remarks.

MR. BISHOP: Opening remarks on behalf of
petitioner will be given by Andrew W. Kentz of Picard Kentz
& Rowe.

STATEMENT OF ANDREW W. KENTZ

MR. KENTZ: Good morning and thank you for the
opportunity to be here today. My name is Andrew Kentz and
I'm here on behalf of the petitioner.

This is the fifth round of the lumber dispute.
And each time, we are here because unfairly traded Canadian
lumber imports continue to injure the domestic industry, our
mills, our workers, or forest land owners, and our
More than 10 years ago, the last lumber trade case was resolved through the softwood lumber agreement or SLA, which expired in 2015. The SLA provided a one year standstill period in which the U.S. industry agreed to not file petitions for AD or CD relief.

Despite our best efforts, we cannot come to a new agreement with Canada by the end of the standstill period in October 2016. Absent a new agreement, the domestic industry had no choice but to invoke the trade laws to address the injury caused by Canadian imports and the fundamental differences in the cost structure of the U.S. and Canadian lumber industries.

What is at issue in this case is whether the U.S. industry can survive the injury caused by unfairly traded Canadian imports both in down and up markets. That is, both when volumes of U.S. production decline and prices drop, but also in up markets when U.S. producers must be able to earn levels of profit that allow them to restore reserves and to make necessary capital investments essential to a modern industry that allowed the industry to grow its production to natural levels and to expand employment.

The fact is that due to massive governmental subsidies, the Canada industry can in down markets maintain production levels and ship its production to the U.S. market...
thereby further harming a U.S. industry trying to survive
the normal downturn of the business cycle.

And when demand recovers, the subsidized
Canadian producers can and have during this period of
investigation take a greater share of the increased demand
and artificially suppressed prices.

In both stages of the business cycle, the
Canadian producers, because of the subsidies they receive,
are the winners and the U.S. industry is the loser. And
that is why it is vital that the U.S. industry receive the
full relief under the U.S. trade laws to which it is
properly entitled.

Canadian government policies that are
established to protect its lumber producers present a
longstanding structural problem to the U.S. lumber industry.
The Canadian government owns the vast majority of the timber
supply. To put this into perspective, the Canadian
government owns 90 percent of harvestable timber, while 85
percent of U.S. harvestable timber is privately owned. The
Canadian government uses its ownership of timber to promote
the growth and stability of the softwood lumber industry,
regardless of fair market principals.

Further, the strong orientation of Canadian
producers toward exports, primarily to the United States,
means that the U.S. industry bears the major share of the
costs of Canada's unfairly subsidized timber system.

Between 2014 and 2016, as the lumber markets slowly recovered from the Great Recession, Canadian imports to the United States increased by approximately 24 percent. Thus, while U.S. apparent consumption increased by nearly 11 percent during this period, Canadian producers captured more than 60 percent of that increased demand and grew its U.S. market share by more than 3 percent, while U.S. producers lost nearly 4 percent of the U.S. market share.

This means the loss of good manufacturing jobs that cannot be replaced. The effects rippled through entire communities and the damage is severe.

The growth in Canadian imports during this period also led to substantial decline in prices. While Canadian imports grew by 24 percent; domestic prices declined by 10 percent. Thus just as demand recovered and prices should have similarly recovered, unfairly traded Canadian imports actually suppressed prices, Canadian producers benefitting from government subsidies gained market share and sustained profits, while U.S. producers lose in terms of the market share and price.

Canadian producers in response to these trade cases slowed their surge of imports and increased prices temporarily. To be clear, though, the Canada industry's response to these cases demonstrate how critical trade
relief is.

When confronted with trade law duties, Canadian producer respond and the market moves toward natural levels. When free from such trade law duties, Canadian producers can and do use the cost structure benefits they enjoy from government subsidies to take market share from U.S. producers and suppress prices.

In short, Canadian imports have substantially impeded the domestic industry's recovery from the devastating of collapse in the U.S. housing industry during the Great Recession. Today, you will hear from those who have been injured by Canada imports. They will speak to the domestic industry's goal to restore a stable market environment in which it can make critical capital investments, low capacity to its natural size, and increase the number of jobs in their industry.

They are speaking on behalf of all of the producers, land owners, workers and communities who have been injured by unfairly traded Canada imports. Thank you for your time.

MR. BISHOP: Opening remarks on behalf of respondents will be given by Eric S. Parnes of Hughes Hubbard & Reed.

STATEMENT OF ERIC S. PARNES

MR. PARNES; Good morning. I'm Eric Parnes from
Hughes, Hubbard & Reed, for the Government of Canada and the Joint Respondents.

You've heard a little bit about the long history of the trade dispute, but this case is like no other prior lumber investigation. The Commission is faced with a domestic industry that is thriving.

As a whole, the U.S. industry is doing better than at any time in recorded history, and that's not hyperbole. Average operating margins during the POI were 13.2 percent. That's more than double the average during any other lumber investigation going back to the early 1980s.

That's why it's so odd to read Petitioner's claim that imports from Canada have been, quote, "contributing significantly to the relatively weak performance of the domestic industry."

"Weak" relative to what? Even in 2015, the worst year of the POI for industry performance, operating margins were still higher than the average during any previous POI. That includes the average in Lumber 4 where the Commission found no current industry.

During the year after the expiration of the 2006 Softwood Lumber Agreement, and before the Petition, all indicators of domestic industry performance were improving. The domestic industry that has railed against free trade has
been thriving under it.

We've seen during that time that increasing
Canadian market share does not suppress lumber prices or
hurt the performance of the U.S. industry. To the contrary,
it turns out that lumber prices and the financial
performance of the U.S. industry improved during times when
Canadian market share increased. And we recognize that the
mere fact that an industry is profitable doesn't preclude a
finding of injury. But the law wasn't meant to protect an
industry that is performing better than it has at any time
in recorded history.

And it wasn't meant to protect an industry that
every analyst predicts will continue to grow into the
foreseeable future. Apart from already pent up demand for
new residential housing which drives demand for lumber, the
U.S. has just been hit by two incredibly devastating and
destructive hurricanes. The rebuilding from Harvey alone
will further drive demand for softwood lumber into the
foreseeable future.

Meanwhile, Canadian timber supply and production
capacity is increasingly constrained by its own natural
disasters. There's no threat that a wall of wood will be
coming across the border in the absence of trade protection.

This morning you will hear a lot of effort to
obfuscate these simple truths. You're going to hear tales
of woe from companies that have never before experienced
profits like they have experienced over this POI.

When you listen to these witnesses, I hope you
will consider having the data on these companies' actual
performance in front of you. And I respectfully suggest
that you ask a few important questions.

First, you might ask the representatives of the
two publicly traded companies, Weyerhaeuser and Potlach,
whether they agree with their counsel's statements that we
are at the top of the market, or whether they agree with
their CEO's statements to investors that they are bullish
and expect continued growth in demand. Which is it?

Second, when the CEOs of Weyerhaeuser and
Potlach spoke to their investors just a month-and-a-half
ago, they emphasized that high lumber prices and strong
performance weren't due to the preliminary duties or the
petition. They said high prices and strong performance
resulted from supply and demand. But counsel for Petitioner
says recent prices and performance are all due to the
effects of the case. Again, which is it?

Third, when the witnesses complain about an
inability to undertake capital expenditures, you might ask
them about some of their massive investments. Over the
course of the POI, the members of the domestic industry that
responded to questionnaires collectively took in $3.5
billion in cash. Roughly $2.5 billion of that went to capital expenditures.

Those are massive investments, but they still had nearly a billion dollars in cash left over. So you might ask the others why they've chosen not to invest the cash that they have in their mills. Companies like Weyerhaeuser and Potlach are using some of their sizeable profits from lumber sales to buy up land where timber is scarce, as it is in many parts of the U.S. West. Increasing lumber prices mean increasing log prices. They are often indexed to each other.

So the few companies that haven't performed as well as the industry as a whole are in areas where timber is scarce, and companies like Weyerhaeuser and Potlach that own the timber have no interest in selling them cheap logs.

We'll discuss the statutory elements and the details this afternoon. Ultimately, though, the Commission should find no injury or threat of injury for the simple reason that the domestic industry is doing great, and there's no reason to believe that it could be doing better. Over the last 30 years, the U.S. industry has grown so accustomed to demanding and receiving trade protection that they seem to have forgotten to check whether they actually need protection before asking for it again.

We look forward to the results after the
CHAIRMAN SCHMIDTLEIN: Thank you very much. Mr. Secretary, would you please call the first panel.

MR. BISHOP: Would the panel in support of the imposition of the antidumping and countervailing duty orders please come forward and be seated.

Madam Chairman, all witnesses on this panel have been sworn in, and this panel has 60 minutes for the direct testimony.

CHAIRMAN SCHMIDTLEIN: You may begin when you're ready.

STATEMENT OF DAVID A. YOCIS

MR. YOCIS: Thank you very much, Madam Chair, Members of the Commission. My name is David Yocis on behalf of the Petitioners this morning.

Before we turn to our industry witnesses, I would like to just begin by outlining the basic facts of this case, which are straightforward, for the most part not in dispute, and also that have not changed significantly since the preliminary determination.

As the staff report makes clear, about 80 percent of softwood lumber in the United States is used in residential home construction, remodeling, and repair. This chart, which is actually from the Respondent's prehearing
brief at page 27, makes this clear. It shows in the blue lines annual U.S. housing starts going back to 1995, and the orange line represents U.S. apparent softwood consumption of softwood lumber during each of these years.

The close connection between the two is evident from the chart. And it's also clear from the chart that the Great Recession was catastrophic for softwood lumber producers. Consumption fell by more than half. And since the bottom of the cycle in 2009, demand has slowly but steadily increased.

Things should be getting better for the domestic industry, but over the Period of Investigation they have not. From 2014 to 2016, U.S. apparent consumption, which is the grey bars in this chart, increased. It's hard to see the grey bars with the lighting, but the numbers are there.

Apparent consumption increased from 2014 to 2015 by almost 1.7 billion board feet, and by an even larger 2.9 billion board feet from 2015 to 2016. U.S. domestic shipments, which are the blue bars, did increase slightly, but they did not keep pace with rising demand. And U.S. market share over the period fell.

And that is because Canadian imports over this period increased quite significantly. During this period, Canadian imports took nearly two-thirds of the increase in U.S. consumption. And as Canadian imports increased, prices
fell. Specifically, from 2014 to 2015, demand increased but Canadian imports took most of the increase and prices fell substantially.

  From 2015 to 2016, demand increased even faster. Canadian imports again took most of the increase, and while prices recovered slightly consistent with the stronger demand increase in 2016, they still remained well below 2014 levels.

  And the financial performance of the U.S. industry during this period largely tracked price. It worsened considerably from 2014 to 2015, recovered somewhat with the demand surge in 2016, but still remained well below 2014 levels.

  Thus, over the period 2014 to 2016, we see significantly improved demand but even more significantly increased imports, falling U.S. market share, falling U.S. prices, falling U.S. industry performance, and falling U.S. industry investment.

  It is not what one would expect to see during a period of improving demand, and not what the domestic industry needs as it continues its slow recovery from the Great Recession.

  All of this the Commission understood and took into consideration in its preliminary determination. What has changed since then is the effect of the preliminary
duty. As the 90-day mark before the Commerce preliminary
determination in the CBD case, and therefore the day on
which duties could potentially be applicable on a
retroactive basis, lumber prices in the U.S. rose virtually
overnight, as Canadian producers hiked prices to offset
potential duty liability.

And this year with Canadian imports restrained,
prices improved with demand, even though the 2017
improvement in demand so far is not as strong as the
improvement in the last two years.

This confirms that unrestrained Canadian imports
had been depressing prices to the material harm of the
domestic industry, and would do so again in the absence of
trade relief.

For the details of how this has affected U.S.
lumber producers and their communities, we have a number of
industry witnesses here today.

I noted that on page 4 of the Respondent's
prehearing brief they say, quote, "The Commission should
listen to the Petitioner's largest member, Weyerhaeuser
Company." And when we have an opportunity to agree with the
Respondents, we're happy to do so. And so at this point I
would like to give the floor to Mr. Blocker of Weyerhaeuser.

STATEMENT OF ADRIAN BLOCKER

MR. BLOCKER: Good morning. My name is Adrian
Blocker,

and I'm the Senior Vice President of Wood Products for Weyerhaeuser Company.

I joined Weyerhaeuser as a Vice President of Lumber in 2013, after a career spanning over three decades in the forest products industry. Prior to joining the company, I served as President and CEO of The Wood Products Council. I've also held a number of leadership positions with other public companies in the industry, including Champion International, International Paper, and West Frazier. Coincidentally, I'm also a small family tree farm owner with limited markets for my logs.

Weyerhaeuser is the largest producer of wood products in the United States, with 36 manufacturing facilities and 17 distribution facilities. We have 11 sawmills in the U.S. South, and 5 in the West. We also have 3 lumber mills in Western Canada.

In addition to lumber, we produce plywood, oriented strand board, and engineered wood. We started out as the Weyerhaeuser Timber Company in the State of Washington in 1900, and today we're one of the largest private owners of timberlands in the world. We manage timberland on both sides of the U.S.-Canadian Border, which uniquely positions us to understand the differences between the two systems.
With over 13 million acres in the U.S., we're the largest private landowner in the country. In Canada we manage approximately 20 million acres, but due to restrictions of ownership of timberland, this is done in the form of Crown leases.

I can tell you that my company, like many others testifying today, is capable of supplying a significant greater portion of the U.S. demand for lumber than we currently do. We have the timber base. We have the capital, and the manufacturing capability to produce much more. But what's missing is the confidence that Canadian imports won't continue to destabilize the market and prevent requisite levels of returns on investment for growth.

In comparison, our Canadian counterparts have been flourishing and continue to capture the increases in demand in the U.S. market and buy distressed U.S. mills. Simple economics tell us that the influx of imports has kept us from reaching our natural capacity level.

We have recently seen some relief in the South with improved prices that allows us to take advantage of the current environment. The turnaround in our earnings, however, was not due to price alone. A large portion of the earnings generated by our lumber business came from operational improvements that enhance performance.
But our recovery from the financial crisis has been slow. The investment we are now making come after long durations of deferral. We must employ resources now to repair and fix the facilities that needed it during the economic downturn but for which we did not have the ready capital at that time.

Simply put, like any other prudent business we are recovering from the past to have capital for the future. While Weyerhaeuser has been able to make investments to improve our existing mills, we are not willing to invest capital in significant new capacity because we are not convinced the current profitability is sustainable.

The fear that this period of relief is short-lived is real. Unfairly subsidized lumber from Canada has historically kept us from generating a sustained margin over the business cycle.

Canadian imports destabilize the market, force closures during economic downturns, and hold profits that are needed in strong markets to sustain operations through the business cycle.

The fact that disruptive Canadian imports create uncertainty deters investment. We saw this during the downturn when we were forced to close 50 percent of our sawmills.

We have witnessed the ineffectiveness of the 2006
Softwood Lumber Agreement in preventing Canadian imports from destabilizing the U.S. market. The Canadians were able to ship through the SLA tariffs that did not offset the amount of the subsidies because their costs remain low. And as a result, the volume coming into the U.S. was not curtailed by the SLA.

With mills on both sides of the border, we understand the Canadian cost structure. It was particularly evident during the downturn when the U.S. producers were struggling but our Canadian counterparts had a lower cost structure due to government subsidies, allowing them to make investment that increased efficiency and capacity.

U.S. producers simply do not have these advantages. Trade relief that includes a full offset of the unfairly traded imports which we did not have under the SLA, or an equally effective agreement, is the only way the U.S. industry can truly recover from the Great Recession and foster an investment environment where the industry can grow to its full potential to serve the U.S. market.

Thank you for the opportunity to share my perspective here today, and I'll be glad to answer any questions.

STATEMENT OF CAROLINE DAUZAT

MS. DAUZAT: Good morning. My name is Caroline Dauzat. My brother, sisters, and I own Rex Lumber. We are
a fourth-generation family-owned and operated company that produces southern yellow pine dimension lumber. Our family has been in the lumber industry dating back to the early 1900s when my great grandfather started mills in Mississippi, Alabama, and Florida.

Today, we have three sawmills, two in Florida, Bristol and Graceville, and one in Brookhaven, Mississippi. Brookhaven is a small community in Mississippi where we are one of the only major manufacturing industries in town.

In Florida, we are even more critical to the communities where we reside. While the Florida Coast is booming, the rural areas have really been left behind. In Graceville and Bristol, other than prisons we are almost all those communities have. In the '50s, they called Graceville the smallest town with the most millionaires, and it was the smallest town with a U.S. Cadillac dealership. But it is desolate now. There's hardly any industry left. These towns depend on us for the property taxes we pay, jobs we provide, and for our philanthropic work. But unfair imports from Canada deeply affect us and make it difficult for us to do any of these things.

We compete head-to-head with Canadian lumber in the framing market and in the truss market. In the past three years, we have lost a lot of that business, including one of our good customers, a truss manufacturer in the
Midwest.

In 2013, this customer purchased almost 7 million board feet. It declined each year after that, and in 2017 year-to-date they have only purchased about 65,000 board feet. This is a 99 percent decline in sales since 2013. We have essentially lost all of our business from that customer. We know for a fact they quit buying from us because they switched to cheaper Canadian wood. How?

MS. DAUZAT: How, they simply told us.

Canadians argue that SPF doesn't compete with my company's products, southern yellow pine, but that's simply not true. I see competition between the two species every day and I will share two stories with you today that illustrate the point.

Rex Lumber has been donating lumber to Habitat for Humanity in nearby Walton County for the past five years. In this slide -- this is a house Graceville. Habitat for Humanity approached us to sponsor in our hometown. We gladly agreed to donate the lumber and cover the rest of the $50,000 sponsorship with cash. To our disappointment, for the First time the Habitat people went out and purchased lumber at a retail store instead.

It was not until I went to the site that I realized the lumber they purchased from the store was Canadian. That really broke my heart. Our Graceville mill
is less than a mile down the road from the house, yet the lumber that Habitat used was from a mill over 3,000 miles away. Similarly, earlier this year in June, I walked through a residential development under construction in Destin, Florida. This development, See Glass Apartments, is a 288 unit, over 343,000 square-foot, large luxury apartment complex.

As you can imagine, that requires a lot of lumber for framing. Once again, the builder was using SPF from Canada. As I walked through a portion of the complex, I was able to capture some photos of the marking on the lumber that identified, both the species, SPF, and the Canadian Lumber grading identification system, NLGA. From these stamps, I was able to determine that the lumber in that development came from mills in British Columbia, Ontario, Quebec, and the Maritimes. Outside I saw additional bundles of Canadian lumber.

None of the lumber I saw being used for framing was identifiably American. In these photos, you can also see that some of the SPF lumber has been stacked, meaning that more than one piece of lumber is being used to frame. This is to meet the region's strict construction codes. That tells me the builder deemed it cheaper to stack SPF lumber than buy southern yellow pine.

SYP meets the strength requirements for this
area and does not need to be stacked. SYP is produced in the southeastern region of the United States. This development is less than 90 miles from our mill in Graceville. By contrast, any of the Canadian mills that supplied the lumber were at last 2,000 miles from the location.

It is simple. These large developments make business decisions based on price and price alone. Canadians will say spruce and southern yellow pine are different, that they aren't substitutable because of small differences, but that inaccurate. Professional builders and those of us in the lumber industry know that any differences are minor and ultimately do not matter over price.

Right now the market in the South is better than in other parts of the U.S. Yes, profitability is up at this point in the business cycle, but that's because the current market is an anomaly. During the crisis, many southern mills were crippled. The Canadians acquired some of those mills and continue to operate them. It was a hopeless time. Rex Lumber was forced to make layoffs for the First time since the Great Depression.

Even though the market is up at the moment, there are fewer mills to buy all the timber that nobody harvested during the recession and that timber is now hitting the market. We've got a relatively low log cost at
the moment, but we do not expect it to say that way in the
long term. My brother, sisters, and I are looking to grow
our business. We have acquired bankrupt mills when they
come up for sale, but we would like to expand in a more
strategic manner, which is incredibly difficult in an
uncertain market flooded by under-priced Canadian lumber.

As I said, my family has been in this business
for over a hundred years. I have experienced the direct
impact of unfairly traded Canadian lumber. I've watched
buildings go up in our community that are framed with
Canadian lumber from thousands of miles away. We have seen
the impact of that lumber on our prices, but this phenomenon
is not limited to 2014, '15, or '16. They repeatedly flood
the market, especially when U.S. producers are most
vulnerable.

Resolving this issue is vital to our industry,
my family's company, our employees, and our communities.
Thank you for taking the time to listen to me today. I'll
be happy to answer any questions.

STATEMENT BY CHUCK ROADY

MR. ROADY: Good morning. My name is Chuck
Roady and I am the Vice President and General Manager as
well as one of the Board of Directors of F.H. Soltze Land
and Lumber Company. We are the oldest privately-owned
company in Montana, now in our sixth generation dating back
to the early 1900s. We operate a small and a large log
sawmill, a woodpile mass power plant and own about 40,000
acres of timberland near Columbia Falls in the very
northwest corner of Montana.

We have 120 to 130 employees, along with an
additional 80 to 100 logging and trucking contractors that
rely on us for their livelihoods. We have been involved in
the softwood lumber dispute since the 1980s, so this is not
a new issue for us. It is very simple in my mind. The
injury to the U.S. lumber industry from subsidized Canadian
timber has been and continues to be very real. When you're
located 40 miles from the international border, you see
significant volumes of lumber come across the border on a
daily basis.

I've seen as many as 30-plus railcars of
Canadian lumber go by our sawmill most every day on the main
line of the railroad. We continually watch the incoming
Canadian lumber flood our markets as we struggle to sustain
our own operation. Canadian producers sell the same
products, same species as we do at Soltze. Every single
product is in direct competition. The species we harvest
and saw in our mills are the same that are utilized just
across the border. The difference lies in the prices we pay
for the timber.

The Canadian government system provides their
lumber mills with a steady, reliable stream of cheap logs; while in contrast, U.S. producers must produce timber and logs in the open market. This difference in policies is the reason why Canadian mills are able to thrive in good market conditions and survive well through difficult market conditions. U.S. mills, on the other hand, are not able to fully benefit from the good times and we are crushed in the bad times. The lack of a level playing field is the reason the Canadian mills can invest and grow in capacity while the U.S. industry declines.

You are most likely going to hear our northern neighbor discuss the impact of the Mountain Pine beetle in BC and Alberta over the last 10 years. They may even suggest that their timber supply going forward will be more constrained than it has been in the past. I'm very familiar with Mountain Pine beetle epidemics and the manufacturing of beetle killed wood. We've experienced our own such epidemics since the 1980s and in the 1990s in Montana and the inner-mountain west.

Our large plywood pines too have turned yellow, orange, and finally gray, but we harvested and processed as much of that beetle killed wood as was available for purchase. Most of the timber is merchantable and is utilized in most structural applications. I continually hear a lot of publicity about how important the Canadian
forest industry is to their jobs and to their communities and their producers, but I adamantly maintain that unfairly traded imports from Canada impact our employees; they impact our jobs, our companies, and our small towns in a very negative way.

We have not been able to run our mills at capacity production. We have seen curtailments of shifts and hours in Montana since the SLA expired and this is in a favorable market when demand has been high. Of course, the Canadians captured that market share. Given a level playing field, we could operate our U.S. mills at capacity and easily provide a much larger share of the U.S. lumber market demand. What is even more agonizing is that the reductions we experienced in production lead to fewer jobs in a community that relies heavily on our industry.

I'm a member of several North American industry initiatives that promote different uses in marketing of lumber products. In that role, I work with my Canadian producer counterparts all the time in joint promotion of forest products. I have worked my entire career adjacent to the Canadian border, spent many of my days recreating in Canada, and most importantly, I call many of them my friends. I have absolutely nothing against the lumber producers north of the border and I welcome that competition, but we need a level playing field to counter
the different timber-sourcing systems in the two countries.

The Canadian lumber imports continue to seriously harm our industry. It is that simple. Thanks for the opportunity to share my perspective. I'd be glad to answer any questions. Thank you.

STATEMENT OF MARK BENSON

MR. BENSON: Good morning and thank you for the opportunity to speak with you today. My name is Mark Benson. I'm Vice President, Public Affairs for the Potlach Corporation. Potlach was established in 1903 as a timber and lumber company. Over 100 years, we became an integrated forest products company, like many others. And in the 21st Century, we've simplified and have gone back to where we started -- timber and sawmills.

Today Potlach is a publicly traded real estate investment Trust. We are rate with about 1.4 million acres of industrial timberland in Alabama, Arkansas, Idaho, Minnesota, and Mississippi. We harvest timber and sell both softwood and hardwood logs. We produce softwood lumber from a variety of species in Arkansas, Idaho, Minnesota, and also Michigan. I've been with this company for 40 years. I'm a forester by training and I started with Potlach as a field forester in northern Idaho in 1974. During a three year hiatus, I worked as a lumberjack in the forest of northern Idaho and then returned to Potlach as a timber and land
acquisition manager and eventually as a business planner. I later managed an OSB mill and a lumber mill in Minnesota before returning to Idaho to oversee Public Affairs and federal policy for the company.

I love this work, but I wouldn't do it for anything other than a timber company. My heart still is in the woods. Because we operate in both timber and lumber markets, we understand the importance of investing in both our facilities and forestry services to remain competitive. We also see how unfair competition from Canada impacts both the lumber and timber markets and affects our ability to make those investments.

On the lumber side, technology advancements are necessary to survive. If you don't adopt current technology and have state-of-the-art equipment, you're not efficient and you can't compete for logs. The equipment has changed rapidly over the past 20 years. Sawmills on both sides of the border have the same incentives to make their mills more productive and we compete in the same market for that equipment, but Canadian companies that have access to cheaper stumpage have more money to invest in their facilities, so we have a hard time catching up and keeping up.

You can see this happening in the South. Canadian companies buy U.S. mills and use their Canadian
profits to retrofit or install new equipment. They're able
to do this because their lower stumpage cost leaves them
with more money to work with. All of that hurts our
sawmills in the long run.

On the timber side, as I mentioned, we manage
1.4 million acres. Privately-owned timber lands account for
about a third of our country's forest acreage and most of
those are owned by families or in some for of private
equity. As a landowner, we manage our forest to optimize
our harvest, both from a biological and economical
perspective. Most of our logs go to either our own
sawmills or other sawmills, although we do supply some pulp
logs in the South.

Lumber and log markets are different, but they
are linked. Ultimately, logs prices will be governed lumber
prices. There's a lag between the two, but if there's no
market for U.S. lumber there's no market for our logs. If
the lumber market crashes, the price of logs will also fall.
And if log prices drop below a certain point, we hold off
harvesting until the price recovers. This can create its
own problems because even though there have been advances in
mechanization logging remains a labor-intensive industry and
non-worker loggers who leave the industry during down times
may never come back, but today we have more timber than
manufacturing capability and we are ready and able to supply
the U.S. market when it is economical to do so.

Right now we're in a favorable period in our business cycle and I feel positive about our company's focus on timber and lumber, but it is critical for our business to have markets that are fair and growing and open to us to access so that we can remain productive and competitive into the future. That's why this trade case is so important to us. Again, we need fair markets throughout the business cycle when times are good and when times are difficult.

Thank you. I'd be glad to answer questions.

STATEMENT OF STEVEN SWANSON

MR. SWANSON: My name is Steve Swanson and I'm the President and CEO of Swanson Group, a family-owned company in Glendale, Oregon. I'm also the former chairman of the U.S. Lumber Coalition. The lumber industry has been an integral part of my family. Swanson Group's history dates back to the 1930s. It started with the dream of two Swedish immigrants, my grandfather and great-uncle, who started their own mill.

The knowledge of the industry and desire to build a stronger business was passed down to future generations. I grew up riding my bike to the lumberyard on the weekends and joined the family business in 1977. Since then our operations have undergone many changes. Today, Swanson Group produces both lumber and plywood. We employ
approximately 800 people in total operations. Our lumber is mostly Douglas Fir, which competes directly with Douglas Fir, Hemp Fir and SPF lumber from Canada. These species are interchangeable, which is demonstrated by the specification requirements set out by the American Lumber Standards Committee and the Canadian National Lumber Grading Association. These groups are the respective national authorities on setting structural qualifications for each of the grades and their standard grading rules for species of lumber on both sides of the border are virtually identical.

Price volatility in the industry has resulted in a long term and sustained negative impact on U.S. producers. Canadian imports of lumber are a significant contributor to this volatility. Canadian producers have a guaranteed flow of the low-market logs which allows them to maximize production for exports to the United States in both good times and bad times. The influx of Canadian lumber imports through the recession was particularly devastating to U.S. producers, but during the recovery Canadian imports have continued to have a tremendous negative impact on the market.

For example, we used to sell a lot of white Fir in the Phoenix, Arizona area, which is a large and growing residential market. Starting in 2014, we began to lose most of our white Fir sales in Phoenix because buyers had
switched to SPF from Canada, which they had never used before. Buyers there told us directly that the lower price of the Canadian SPF was the reason that they switched. We have submitted many other examples of lost sales to the Commission.

As you can see, we have reported a significant number of instances of Canadian imports underselling our company's domestic products all across the country. This provides a real apples-to-apples comparison. You have the same product being sold to the same city on the same day. In these sales, we were undersold by Canadian imports to a significant degree. The variance is different, of course, depending upon the region and the associated transportation costs. The prices needed to be compared in the context of the specific delivered market.

We have thousands of lost sales in a given year, but here we highlight just six instances all across the country. These six instances alone represent over $100,000 in lost sales. For each of these unfairly traded Canadian products undersold our domestic product in the same local market.

Since the preliminary duties were put in place, we have seen a clear affect on prices. In early February, in advance of the duties, we here from customers that Canadian companies were expecting a 30 to 40 percent duty...
rate that they suspected would be retroactive to the beginning of February. Prices increased quickly in early February and the uptick lasted through late spring. For a few weeks following that period the market retreated in the West. And once again, in mid-May, after the announcement of the CVD preliminary determination, we witnessed a record-level escalation in prices which lasted until last month.

There was an unequivocal impact of the preliminary duties on prices. This price increase, along with relatively strong consumption, has supported a stable market when our mills are not struggling to stay open. However, we are not always in such a market. During the great recession, we could not operate at capacity. We were forced to eliminate shifts in our mills. It is particularly difficult for a family-owned company like ours to make business decisions that lead to layoffs in our communities.

In Glendale alone, which has a population of 800, we employ 150 people in our lumber mills, so you can imagine that even a small layoff causes ripples throughout the community. Despite the struggles, we did begin to make some investments when prices improved in 2013 and 2014. Some of that investment came from the diverted funds. We lost a plywood plant to a catastrophic Fire in 2014 and the
insurance proceeds were used to invest in softwood lumber
and to finance operating losses in that segment of the
business. This delayed our rebuilding the plywood mill by
close to a year, so even some of the investments came at a
cost.

More importantly, a lot remains to be done
throughout the industry. In our industry, recovery from the
financial crisis has been slow and most of the investments
come after long durations of deferral. While we have been
able to make some investments to improve our mills, they are
contingent upon an expectation of an adequate return. As an
active board member of the U.S. Lumber Coalition, the lumber
mill owner and a member of our great community in Oregon, I
understand too well the impact of the massive flow of
subsidized lumber from Canada. This is why trade relief
that includes a full offset of the unfairly traded imports,
which we did not have under the SLA, is the only way the
U.S. industry can truly recover from the great recession and
foster an investment environment where the industry can grow
to its full potential to serve the U.S. market. Thank you
for your time and attention. I'll be glad to answer any
questions.

STATEMENT OF BILL HOWARD

MR. HOWARD: Good morning. My name is Bill
Howard. I'm CEO and owner of Claude Howard Lumber, located
in Statesboro, Georgia. Our first saw mill opened in 1898. Now we have about 100 employees in our sawmill operation. We're the largest manufacturer and employer in Statesboro. We also operate Howard Lumber and Hardware, a retail building supply store, and in 2016 it was number 11 in single site sales in the nation.

We stay competitive by sourcing lumber from a number of producers, including from our sawmill and from Canada. As you can see on this slide, our building supply store is located next door to our sawmill. While we prefer to sell only the lumber that we produce next door, we are forced to import Canadian spruce from British Columbia because it is cheaper to bring in than to purchase the Southern Yellow pine produced on site.

Whatever is cheaper is what sells. I have to keep Canadian lumber in stock to keep my store competitive. Twenty years ago the store was different, because it was hard to drive a nail into Southern Yellow pine with a hammer, but with the evolution of the nail guns, contractors readily use Southern Yellow pine in conventional framing.

Now everything comes down to price. As the slide shows, having our sawmill right by our building supply store makes our freight costs next to nothing. But Canadian SPF can be delivered to our store by rail with $108 a thousand freight rate and still be cheaper than our own
sawmill. Canadian mills are just adjusting their stumpage costs to stay competitive on delivery price. When Southern Yellow pine is more competitive, contractors buy Southern Yellow pine.

In the years prior to the expiration of the SLA in 2015, we were selling Southern Yellow pine at an average price that were lower than the prices of Canadian SPF. These species are so interchangeable that once SPF prices began coming down with an increase in Canadian imports in 2016, more customers started switching to Canadian SPF.

In summary, it comes down to what species is cheaper delivered in. It can be Doug fir, Hem fir, eastern or western SPF or Southern Yellow pine. Low price is what sells. I'd be glad to take any questions you have about either our production or distribution operations, and I thank you for your time this morning.

STATEMENT OF STEVE BANAHAN

MR. BANAHAN: Good morning. My name is Steve Banahan. I'm the sales, lumber sales manager for Pleasant River Lumber. Pleasant River is a family owned business with four saw mills in the state of Maine. Our mills produce approximately 200 million board feet of SPF dimension lumber and Eastern white pine boards. I've worked in the lumber industry for 37 years, with companies that
have had both U.S. and Canadian production. During this
time, I have bought and sold millions of board feet of U.S.
and Canadian lumber.

The Canadian government subsidizes their mills
in order to ensure full employment in rural areas. This
would be a noble cause if it did not come at the expense of
our jobs in our rural towns. The primary subsidy to the
Canadian producer is in the form of log costs. This alone
gives the Canadian lumber producer an advantage on the
largest cost driver in our industry.

The net result is that there has not been a
level playing field for the U.S. lumber producers for a very
long time. It inhibits U.S. investment in our industry and
keeps us on the defensive most of the time. We compete
directly with mills across the border from the maritime
provinces and Quebec. Many of these border mills use both

The low cost of the Crown timber allows them
to have a lower log cost average than the mills located in
Maine. As you can see, our log base is located very close
to the border. Any suggestion that U.S. lumber is not
suitable for building our own houses, mobile homes and
modular buildings is patently false. Some argue that a
Canadian white spruce log or a balsam Fir log grown 15
miles from our logs has a higher strength value. If you buy
that, I have some magic beans I'd like to sell you. I am quite familiar with the sale of lumber. A typical SPF mill sales representative will handle 80 to 100 interactions each day. I personally average well over 500 emails in a given week and at least 100 phone calls. Due to the sheer volume of communications, not all traders seek feedback after their quotation has been rejected. However, I try to follow up on every quote to gain insight into the customers' decision.

This is why I've been able to gather some of the lost sales documentation that has been submitted to the Commission for Pleasant River Lumber. Here, you can see instances of some of our lost sales all along the eastern seaboard. For sales process for lumber functions like this, customers send a request for a quote to multiple saw mills and wholesalers with the same request and shipping destination.

The customers' decision-making process is typically based on price, quality and shipment terms, in that order. For example, customers regularly call to request a price on 2 by 4 random tally without specifying a specific mill. They may not even specify the species. In my experience, this is due to the fact that different mills and species are substitutable. Price is usually the ultimate factor in the customers' decision.
Upon receiving our quotation, customers will then give us either the go-ahead, or tell us they went for another mill's offer. I always seek the competing mill price as a normal course of business. Depending on our relationship with the customer, they will sometimes give us the opportunity to meet the price. That's what we call having the last look.

Instead of a lost sale, it's now a case of lost revenue. It's one of the ways to realize the impact of cheaper SPF on our own sales over the years. In terms of pricing, the market fluctuates from one call to the next. We get a good picture of where prices stand at any given time, whether it's from U.S. mills or Canadian mills.

We send out a price list on Monday and adjust all week, depending on supply and demand. We're all competing for the exact same market, so price is usually what makes or breaks these sales. We ship approximately 30 percent of our lumber by rail and 70 percent by truck.

British Columbia and Northern Quebec mills mostly ship by rail to the Southeast U.S. market.

Atlanta, for instance, is a hotly contested market, and it uses a large amount of 2 by 4 grade stamp number three lumber for plate stock. We typically avoid this market, due to the low cost, low pricing of Canadian production in this market. We try to sell our low grade in
closer markets in order to get a better return.

Pleasant River takes price in producing high quality lumber, but competition with subsidized Canadian production makes our margins extremely tight. In addition to SPF, our company produces Eastern White pine. It is a type of wood that is used for non-structural applications, siding, flooring, doors, molding and window frames as examples. We're in head to head competition with Eastern White pine from Quebec, New Brunswick and Ontario.

But once again, it is difficult to match their prices. Simply put, all the species we produce are in head to head competition with Canadian lumber and we are losing. We currently employ approximately 350 people. Indirectly, we create 3,000 other jobs in our rural communities. Given a level playing field, we would like to double our production over the next two years. We have the capacity, we have the wood supply.

Canadian assertions that we cannot adequately supply the lumber demand in the U.S. are grossly misguided. We have more fiber growing in the U.S. than we did in the 1700's. We would like the chance to sustainably harvest those logs, produce lumber and provide good, solid-paying jobs here at home. We have no objection to competition as long as it's fair competition. Thank you for your attention. I'd be happy to answer any questions.
STATEMENT OF TONY HADLEY

MR. HADLEY: Good morning. My name is Tony Hadley and I'm the executive secretary/treasurer of the Carpenters Industrial Council, a union made up of professional, service and production workers throughout the U.S., and one of the petitioners in this case. We represent workers in sawmills throughout the U.S., and our members have seen the devastating effects of unfair competition with Canada firsthand.

In fact, we've lost about 500 members as a result of mill closures primarily due to import competition and the resulting reduction of orders. The jobs lost as a result of one of these mill closures were good-paying jobs with good benefits, including health care and retirement plans.

So they were all in rural areas, so the chance at finding any work that had comparable pay and benefits was slim to none. To get something close to being able to maintain a decent standard of living, those breadwinners had to be willing to drive a longer distance and start over, probably without benefits or benefits that were not nearly as good as those they enjoyed at the lumber mill.

These hard-working blue collar workers, most with limited education with families and responsibilities that make it hard to go back to school and to get a degree
or even learn a different trade. If they wanted to relocate
to an area where they had a better chance to get a good job,
where does that money come from? Do they borrow it and hope
that they find something when they get there?

All you have to do to see the impact that
unfair trade has on communities is take a drive through
rural America. Throughout the west coast, the rural South,
even in the Midwest and the East, you don't have to drive
many miles to find sawmills in these small towns that have
been shuttered, most with equipment scrapped and the
buildings either in decay or renovated for some sort of
storage.

You'll also see the main streets full of
closed shops, and an infrastructure that needs attention.
We saw what happened with the textile mills and the steel
mills, and now it's lumber. However we hope to continue to
be competitive against mills, to have access to unlimited
raw material at subsidized rates, we can't. Something has
to be done. Thank you for the opportunity to speak with you
today, and I'd be happy to answer any questions that you may
have.

STATEMENT OF ANDREW MILLER

MR. MILLER: Good morning. My name is Andrew
Miller. I am the CEO of Stimson Lumber Company. We are a
six generation family business operating six sawmills in
western Oregon and northern Idaho, with timberland holdings in the same regions. We employ 800 people in these communities, and are one of the largest U.S. producers of construction grade stud lumber sawn from Douglas fir, hemlock, SPF and white Fir timber.

Our largest customer is the Home Depot. We're one of the Home Depot's largest stud lumber vendors nationwide, and we sell in over half of the Home Depot stores in the America. Our experience in the market has made one thing clear: wood is wood, whether it is Douglas fir, hemlock, white Fir or SPF, construction grade or specialty products. The price structure for wood is the same for lumber is the same.

When Canada floods the market with lumber, it pulls down the price structure for all lumber products. Canada's system insulates its lumber producers from these market conditions, which allow them to maintain profitability and continue their production and export of lumber despite price drops, which in turn further floods the market.

In contrast, U.S. lumber producers must contend with variable prices for timber and lumber, that force them to curtail their own production and defer investment in weak markets, and limit reinvestment and expansion in good markets. In the Pacific Northwest, this
is the case regardless of species. The prices of stud
species are similar and move in tandem because they were
interchangeable per building codes in the construction of
homes and other structures.

In my experience supplying markets around the
country, some customers' preference is for one species
doesn't change the fact that all of the lumber species we
can reproduce can be used and are used in the same
applications, even to the point of using different species
of studs in the same wall. This is also the case for cedar.
Stimson produces cedar in its northern Idaho mills using the
same processes, the same equipment and the same employees as
we used for other lumber species and sizes.

We make the same profit margins on cedar that
we for our other species. Cedar competes with Southern
Yellow pine, red pine, hemlock and Douglas Fir for use in a
number of outdoor applications such as decking, siding and
fencing. Although some customers may choose a look based on
specie of the lumber, all these species are interchangeable
and may even be used in random combinations for the same
job.

A major distinguishing factor is price. The
same price structure and pressures apply to specialty
products such as saw and song beams and long rank dimension.
These are custom products, but they are produced from the
same logs as construction grade studs and are subject to the same interchangeability by both customers and producers.

This means, for example, that coastal British Columbia mills that saw Douglas Fir to serve the Asian market, then periodically dump saw and song beams along dimension in the U.S. when Asian demand goes slack. The impact from this behavior is especially severe for specialty producers, because we have a thin market.

When Canadian -- when Canada overproduces these products, the price drops, but there is no corresponding increase in demand. Instead, demand is saturated for months. U.S. producers have no choice but to curtail their operations. Even if we were to build inventories of these specialty products, we risk the degradation of those products while waiting for the market to clear.

Once demand does reappear, we have to compete yet again with lower priced offers from Canada. Our customers are aware of this cycle and I have seen them hold back on purchases for months at a time in anticipation of the inevitable cheaper pricing from Canada. My company cannot add operating hours or employees in this environment, even though we have both the capacity and the desire to do so.

Canada's harmful effects on the overall price
structure for lumber is also evident in our experience with
the Home Depot. Stimson is fortunate to have an agreement
in place by which it is the sole stud supplier with limited
exceptions for the Home Depot's Chicago market stores. The
pricing for our agreement is based on random lengths SPF,
with a premium added in for our supply commitment.

Yet we deliver in any given week a variety of
Douglas fir, hemlock, white fir, SPF or lodgible pine based
on that SPF pricing. Random lengths prices reflect open
market transactions, but these transactions are always
subject to Canadian price pressures, because buyers are
negotiating for construction grade products based on offers
from various regions including Canada.

The Home Depot agreement is generally good for
business, but our commitment to supply a large volume of
product for our customer does leave us vulnerable to
Canadian-driven price decreases. When the prices for studs
dropped in 2015, Stimson lost millions of dollars because
our mills did not have the option of curtailing production
until the price recovered.

Had we done so, we would have saved on
production cost and reduced losses, but we would have lost
our agreement and our market share with the Home Depot.
Again, wood is wood and what Canada does in one market will
inevitably impact the entire lumber price structure. Since
this case was filed, we have seen prices start to recover. The higher prices we started seeing in February and March were clearly ignited by the prospect of duties.

This has had a huge effect on all aspects of the industry. Rather than getting pummeled in the stud market by our Canadian competitors, we have been able to sell to our customers at a fair, sustainable price. Last year Stimson operated well below its production potential as a direct result of Canada's repeated market surges.

I cannot invest in fixed capital, working capital or additional employees to expand output to potential because the market for all lumber remains too risky, and I'm tired of explaining to Stimson's employees that their hours have to be curtailed yet again because Canada continues to flood our markets, driving down prices below our cash cost to manufacture.

Although we are fully capable of competing in a fair market, we cannot compete against a system that depresses the entire price structure for lumber while remaining immune from the consequences of its actions.

Thank you for your time.

MR. YOCIS: This is David Yocis again, and I know we just have a few minutes left, and so I'd like to conclude by just addressing briefly three additional issues. First of all as you've heard from several of the witnesses,
softwood lumber is a cyclical industry. Even the Respondents acknowledge at page 110 of their prehearing submission that the domestic producers are largely funding their capital expenditures out of their current operations, rather than getting funding in the capital markets.

So when times were bad and lumber producers in the U.S. were losing money, needed investments were deferred. It is now in this period of recovering demand that the industry needs the operating income to make up for the investments that were not made during the recession, and to prepare for the next inevitable downturn. The surge of imports over the Period of Investigation has impeded this from happening.

The Respondents make much in their prehearing submission of the absolute level of the industry's financial performance, but they completely neglect the context of where we are in the business cycle and what that means in this industry. But the Commission cannot ignore this context. In fact, under the statute the Commission considers material injury in light of the full business cycle.

Because of the import surge from 2014 onward, U.S. production is lower than it should be, meaning fewer jobs, lower productivity, lower profits in the good market, less investment, more vulnerabilities the next down market.
That is present material injury.

Second, in this investigation as in prior lumber investigations, it has proven extremely difficult to gather good data on underselling under the Commission's traditional practices. The parties agree that lumber prices are volatile, they change daily if not more frequently, and in the preliminary investigation we looked for some products where we knew that there was head to head competition between the identical U.S. and Canadian product in the same geographic markets, and we did find a few instances of matching sales of U.S. and Canadian product in the same geographic market on the same date.

Some of that data was actually quite interesting. We discussed it in our BPI submissions. But it is clear that the amount of such data was quite small and difficult for the Commission to draw any broader conclusions from. In the final investigation, in an effort to get more data, the Commission asked for prices on sales delivered anywhere in the United States. But unfortunately what we see is that the noise of different transportation costs to different markets in the U.S. has drowned out any information that there might be in that data.

This chart has -- is actually it's in our brief at page 64, where it was BPI but the producer who provided this data has allowed us to use it publicly today.
It's delivered prices from one U.S. producer to the same national U.S. customer for the same product on the same day delivered to a number of different locations.

You can see that depending on the location, there's a variance of $98 per thousand board feet, all due to the transportation cost differential, and I would note that that in percentage terms that is larger than the largest margins of underselling and overselling that were found in the preliminary investigation when the data was limited to location-specific delivered pricing.

So we have other data in our prehearing brief that is both company-specific and drawn from public data such as random lengths, that confirms that the magnitude of the transportation price differences between different markets is too great to draw any conclusions from nationwide pricing averages.

And indeed the Respondents agree on page 79 of their submission that "Individual price comparisons not tied to a particular market have limited utility," and in fact both the Respondents and the Petitioners had agreed that the way that the Commission collected the data in the prelim, while not gathering a great deal of information, was in fact really the way that it needed to be done in this industry to get anything meaningful at all.

So instead, we would urge the Commission to
rely on the public price trend data, as well as confirmed lost sale information. You heard earlier in the testimony about the sales process. A typical sales person at a lumber mill makes dozens of telephone and email contacts every day, and a good sales person follows up with their customers when the sale is lost, to find out why.

This map shows instances that we have documented in our submissions, and this map was I believe in our post-conference brief, and it shows places in the U.S., local markets, where U.S. a sales person confirmed from their customer that they lost a specific sale because Canadian imports were priced lower. In every case, there is a contemporaneous record on the U.S. sales side, and in some cases we have also been able to obtain and provide the Commission with more specific information from the customer as well, that confirms the data.

This is evidence that confirms the general price trends and is location-specific, and shows a significant degree of underselling.

My third point is that transportation costs are also important to another issue that I'm sure we'll hear about a lot this afternoon, which is local species preferences for different species of softwood lumber. We have a reference and some tables in our prehearing brief to a 2009 Wood Products Council report that has data from the
There is also confidential data from the NEHB from 2016, that is on the record but it's BPI. So for purposes of this hearing, I'd like to just use this public data that's a little bit older.

You can see, for example, and we just again for purposes of time, we just took lumber that is used in roof rafters in U.S. new housing construction. You can see that all the species, Southern Yellow pine, which is mainly produced in the U.S. South, Douglas fir, hem Fir may be produced in the Canadian and U.S. West, and SPF, which is produced mainly in Canada but also in the U.S. West and upper Midwest and in New England.

You can see that all of these species can be used in roof rafters and are used in roof rafters, and yet the species that are actually vary quite substantially by location and why? Well you can see obviously from the data that it's because of transportation costs. The issue is really one of price. Delivered Douglas Fir is cheapest in the west where Douglas Fir is produced, delivered Southern pine is cheapest in the South where it is produced; the pattern of usages suggests that in general what is least expensive in each location market is decisive.

This brings us back to the fundamental facts of the case. In this period of increasing, the large
majority of the increase in demand was captured by Canadian imports. Why? Not because of U.S. producers couldn't supply the market, but because Canadian imports were cheaper. So prices fell substantially, notwithstanding the higher demand, the impact of the lost market share, suppressed prices, production, jobs, profitability, investment, material injury and call for an affirmative determination by the Commission.

Thank you very much. The entire panel is open to your questions.

CHAIRMAN SCHMIDTLEIN: All right, thank you very much, and I'd like to thank all the witnesses for being here today to help us understand the issues in this case. This morning we will start with Commissioner Williamson for questions.

COMMISSIONER WILLIAMSON: Thank you Madam Chairman, and I too want to thank all of the witnesses for coming today and for their testimony. The variety of their experiences is very helpful. I also want to thank Mr. Miller from Stimson for allowing some of the Commissioners and staff to visit two of your mills in Oregon. I thought it was a very, very helpful trip and it was also a glorious day to be visiting mills, so thank you for that.

Lots and lots of questions, but I kind of -- pictures are very -- gets me excited. So Ms. Dauzat, I
wanted to start with you and that picture of the stacking.

MS. DAUZAT: Yes.

COMMISSIONER WILLIAMSON: And I wanted to ask how would the picture be different if they were using Southern Yellow pine there?

MS. DAUZAT: Generally, you would not need several pieces of Southern Yellow pine in a framing structure like that. You will use -- it's stacked around a window frame or any type of opening. But in just a wall, you would not need to do that.

COMMISSIONER WILLIAMSON: Okay. So about how much more wood is being used there and isn't there a cost to that?

MS. DAUZAT: Yes, but that's SPF. So they chose to stack the SPF together to get to the strength they needed.

COMMISSIONER WILLIAMSON: And that was more cost effective than using the Southern Yellow pine?

MS. DAUZAT: Visually, it seems so.

COMMISSIONER WILLIAMSON: Okay.

MS. DAUZAT: I didn't speak to anybody personally, but walking through that's what I saw.

COMMISSIONER WILLIAMSON: Okay. No, I just wanted -- it's just I was ^^^^ it just got my attention. I appreciate that. Good, okay. Thank you for that, and so
Mr. Benson had talked about equipment changes and I was just wondering if you could go into a little bit more detail about that.

And then I would like to ask Mr. Hadley to talk about the technology change, from the perspective of the workers, the technology change and training that has evolved in keep up. But Mr. Benson, could you elaborate on that, how technology has changed the industry?

MR. BENSON: Sure, and I'm glad to hear that you were able to visit some of Stimson's mills, because I think you saw probably to your surprise a lot of technology that exists in sawmills today, and there has been, you know, along with so many other technological changes in our country, sawmills have been very much a part of that.

When you go through a mill today, you see as you did, you know, a lot of laser lines and you see computer terminals, monitors all through the mill and it's a very precise process to try to extract the maximum amount of wood from a log. It's in the sawmilling business, a lot of the success comes from making more lumber from a log than what we used to be able to do.

That has been through the advent of technology, much of which is quite expensive and all of us in the room have in order to be here today, have had to make those investments, and we're not done making them. The
technology continues to improve, and we will embrace that
and continue to buy it as long as we need to.

COMMISSIONER WILLIAMSON: Okay, thank you.

Good, and Mr. Hadley, could you address that from the
perspective of the workers?

MR. HADLEY: I'd be pleased to.

COMMISSIONER WILLIAMSON: Mr. Hadley, one
thing we saw was a saw sort of hopping between different
pieces of wood, cutting things off and we all were just
absolutely amazed by it, the skill in doing that.

MR. HADLEY: Yeah. The lumber industry is
kind of unique. You can't bring someone in from another
industry and bring them into a traditional sawmill
environment, and expect them to be able to function from Day
1. So most of the employees who come into that environment
learn from an entry level position and work their way up to
those more complicated operator positions, especially if
it's equipment that is new and more complex as far as the
actual operational requirements.

But and these producers can certainly jump in
any time and explain their own way of training those
employees. But usually in those represented mills, because
we have a bargaining agreement in place, there are specific
guidelines on how you fill those more complex positions once
they open up. If there's a new piece of equipment that
comes in that requires specific training or more knowledge or higher educational background to be able to operate that equipment, they put a training procedure in place and either one of the vendors come in who they purchased the piece of equipment from and actually does the initial training.

Or they send someone from the management team to another location to train on it, and then they train those bargaining unit employees so it's not only workers on that piece of equipment. Sometimes it results in a reduction in the workforce, but the majority of the time those reductions occur through attrition. They keep those employees, a number of employees on until someone retires or someone's out on sick leave and whatever and they don't replace those employees.

Traditionally, that's the way they rebalance the workforce there, and most of these lumber companies, we only represent a small percentage of them nationwide. But most of these lumber companies like to keep those employees they have for as long as they can keep them, because it is labor intensive usually, it is hazardous work and the more you know about the industry and the business, the more productive you can be for those companies. So that's traditionally the way it works with us.

MR. MILLER: I'd like -- this is Andrew Miller -- to address the labor portion. These have become very
highly skilled positions, and they're interchangeable throughout manufacturing industries. We compete out in Oregon and Idaho with high tech manufacturers with steel and aluminum manufacturers for the same talent pool. There might be fewer jobs in a given sawmill today than 20-30 years ago, due to automation and mechanization.

But these jobs are typically in -- we just hired a technician last week for over $100,000 starting salary. These are really valuable jobs in rural communities. We train a lot of our own folks. But we also often lose them to other industries, particularly in a downturn. The last downturn we had the employees that had been with us for 20-30 years and they said I love this business, but I can't afford to stay in it any longer.

It's too cyclical and you guys shut down and hire me back and shut down again. That's not a life I can afford. I'd also briefly like to address what you saw in that wall cavity. We saw some multi-family developers directly, and they are highly motivated by the lowest cost of construction, and they will use the products that are lowest price on a given job at a given point in time.

So when you see somebody stacking up Southern or SPF like that in a wall cavity, it's because that was the lowest cost solution to build that structure per the building code.
COMMISSIONER WILLIAMSON: Okay, thank you.

Mr. Howard.

MR. HOWARD: On the tech, this is Bill Howard. On the technology side, one thing that was maybe left out is the U.S. mills have the same exact technology as the Canadian mills. The recovery and production costs are the same. So there's not like the U.S. is behind the curve on recovery and production costs.

COMMISSIONER WILLIAMSON: Good. That was going to be my next question, so thank you.

MR. SWANSON: So I would also like -- this is Steve Swanson. I'd also like to respond to that question. While we have at Swanson made significant investments in our mills, most of the ^^^ we are trying to play catch-up on deferred investments because during this down cycle, we just didn't have the revenues in order to get the increased technology that we needed.

So we have spent millions of dollars over the last few years getting caught up where we would much have preferred to have done it over a longer period of time.

COMMISSIONER WILLIAMSON: Okay. Mr. Hadley, what about the Canadian workers? Are they the same type of training than the U.S.? Is there any difference in the workforce in Canada and here, to your knowledge?

MR. HADLEY: I don't know personally. I would
imagine that it happens quite similarly there in Canada. I will say though that the United Brotherhood of Carpenters and Joiners of America who we're affiliated with, have been investing a lot of money in technical training for the craft that they need to maintain in a lot of these equipment that's coming on line now, the more intricate equipment, the robotics and the different things that are out there now that haven't been readily available in the past.

But there are a lot of competition for those skilled people that are in those positions now. They are probably going to be the hardest jobs to fill for these companies in the future because right now the old industry's in a lull, as most people know, and a lot of people that they have now, the technical side of the trades that are in these production environments with the lumber mills and saw mills, are out of the old industry.

As soon as that industry opens back up because it's a higher paying industry, they're going to leave again. They're going to have trouble backfilling those positions because the wages are going to have to be set at such a rate to attract them and the benefit packages. That's going to be difficult if their overhead continues to drop, and their operating charges continue to increase.

COMMISSIONER WILLIAMSON: Okay. Thank you for those answers.
CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.

COMMISSIONER BROADBENT: Okay, thank you very much. I want to thank the panel for being here today. Mr. Yocis, could you respond to what the Respondents said in their opening statement, that this case is really, you know, not like any other case, that the lumber industry is doing better than they ever have been historically. Prices and performance of the industry are improving strongly.

MR. YOCIS: Sure, I can do that, and I think -- and I think the -- as I recall seeing in the Respondent's prehearing submission, they actually answered the question, which is that if you look at, for example, lumber 3 or lumber 4, the last 2 injury proceedings in 2002 in 1992. Yes, in those proceedings the U.S. industry was not making as much money as it is now. But both of those cases came during recessions.

So yes, this case is being -- is being filed because the software lumber agreement expired and it expired at a relatively higher point in the business cycle. So yes, in absolute terms the industry is doing better than in in the last two cases which were filed during recessions. So the ^^^^

CHAIRMAN SCHMIDTLEIN: Mr. Yocis, if I could just interrupt you a little bit. We have a Congressional witness and we'll take up where we left off as soon as we
hearing from him.

MR. YOCIS: Sure, absolutely.

MR. BISHOP: Madam Chairman, our next Congressional witness is the Honorable John Tester, United States Senator from Montana.

CHAIRMAN SCHMIDTLEIN: Welcome, Senator Tester.

STATEMENT OF SENATOR JOHN TESTER

SENATOR TESTER: Thank you. If it's appropriate to go, then we will go. Well thank you Chairman Schmidtlein and Vice Chairman Johanson, Commissioners. I want to thank you for the opportunity to testify today. This is a vital investigation for the thousands of hard-working men and women in Montana's timber industry.

You know, the timber industry is a critical component of Montana's economy. It's part of our heritage. Our mills, however, are facing a multitude of external challenges that are threatening its vibrant past. Mills are dealing with unfavorable exchange rates, blatantly unfair trade practices by Canada.

I strongly believe that our mills will remain well-equipped to compete with the rest of the world, as long as we hold foreign competitors accountable to our trade deals. We must prioritize, ensuring mills are able to compete on a level playing field, which is what brings us
here together today.

Our nation relies on the International Trade Commission to enforce trade laws and defend American jobs when a foreign trading partner intentionally distorts markets to gain an advantage. Canada's unfair timber subsidies are a prime example of a foreign country providing an edge to its domestic industry to the detriment of a trading partner. Today, I'm going to share a few thoughts on how Canada's market distortions are harming Montana's timber industry.

These comments are based on what I've heard from folks on the ground, through my face to face meetings with my constituents. In addition, I will urge the Commission to fulfill its mission of enforcing America's trade laws and holding market manipulators accountable.

The Montana timber industry supports 7,000 jobs in Montana. These jobs include mill workers and loggers and truck haulers and engineers and manufacturers. Now while 7,000 jobs may not seem like a lot, especially if you're in an urban area, I can promise you that 7,000 jobs play a significant economic role in rural Montana, especially when you're talking about a state with only one million people.

Now while Montana did not become a state until 1889, I will tell you that Catholic missionaries established
the first known sawmill back in 1845. This mill was water powered and used a single-blade chisel from a wagon iron tire. Over the course of 170 years, the timber industry thrived. Technology grew and Montana established itself as an incredible place to do business.

SENATOR TESTER: And with most industries, the last 170 years delivered peaks and valleys, as markets changed and trade evolved. Unfortunately, in recent years our mills are experiencing more bad than good.

News announcing layoffs at mills are becoming far too often, and Montana counties that rely mostly on the timber industry have significantly higher unemployment than the rest of the state.

There is no doubt that the expiration of the 2006 Softwood Lumber Agreement back in 2015 is a contributing factor to the latest downturn. Canadian softwood lumber imports surged 33 percent over the last two years.

The loss of market share is especially troubling because Canada does not use a fair market system to set prices for raw timber. Unlike the United States where a large majority of its timber is sourced from private lands at a fair market rate, most Canadian timber is on public lands and the Canadian Provincial Government artificially set the harvesting prices. A system known as "stumpage fees" provides a sizeable competitive advantage to Canadian
mills.

   Stumpage fees amounts to the Canadian Government providing a subsidy to businesses that are directly competing with unsubsidized American businesses. That is why it is incredibly important that we use trade laws enacted by Congress to hold the Canadian Government accountable and level the playing field for our domestic industry.

   In the long run, I believe it is critically important that we work together with Canada and the United States' timber industry to negotiate a new Softwood Lumber Agreement that works for both sides.

   I am pleased to report that some progress has been made, and I will continue to urge our United States Trade Ambassador to prioritize getting a new deal in place. The reality, however, is that getting a new Softwood Lumber Agreement in place is likely going to take some time. To limit the onslaught of unsubsidized--of subsidized Canadian lumber into our markets--let me repeat that again because I want to be clear.

   To limit the onslaught of subsidized Canadian lumber into our markets, we must immediately deploy our trade enforcement tools. Our mills and our economy simply cannot afford to wait any longer.

   I want to thank you for holding this hearing
today. I want to thank you for your commitment to trade enforcement. I know that you all put American jobs first, and I look forward to working with the Commission on this issue and other issues to defend the livelihood of hardworking Americans.

    Thank you very much. I appreciate your work.

CHAIRMAN SCHMIDTLEIN: Thank you, Senator. Are there any questions for the Senator?

(No response.)

CHAIRMAN SCHMIDTLEIN: No? Alright, thank you.

SENATOR TESTER: Thank you very much.

MR. BISHOP: Madam Chairman, that concludes Congressional testimony at this time.

CHAIRMAN SCHMIDTLEIN: Thank you. Commissioner Broadbent, you may resume.

COMMISSIONER BROADBENT: Mr. Yocis, did you have anything further to add to that last question?

MR. YOCIS: Yes. So just an addition of the fact that I think the earlier cases were at a different point in the business cycle. I think I would dispute that the current performance of the industry is at record levels. Certainly there have been other strong markets at other times.

    But in the context of the full business cycle, things are certainly not as strong as they could be, or
should be, or need to be at this stage of the business cycle. The Respondents also look at what's happened in 2017 when prices were much higher because of the preliminary countervailing duties that began to affect the market the first week of February.

And when those are only in place for a few months, what you see is primarily U.S. prices go up. U.S. log prices will also go up eventually, although it takes some time for that to kick in. And I think over a longer period of time, I think if stable relief is provided, what you'll see is more investment in the U.S., more production in the U.S., and more volume effects rather than price effects.

And so the current profitability is really a function of the preliminary duties and something that you wouldn't even see even if a long-term order were put in place.

COMMISSIONER BROADBENT: Okay, so your view is that they have done better in the past in terms of industry performance, and this isn't any particular aberration of good performance?

MR. YOSIC: Yes, that's correct.

COMMISSIONER BROADBENT: When would they have done better in the past?

MR. YOSIC: Well some of the industry witnesses
here perhaps could answer that question better than I, but

certainly before the Great Recession the U.S. industry was

considerably larger and prices were much higher than they

are even today.

COMMISSIONER BROADBENT: Okay. And what was the

operating income at that point? I guess the Agreement was

in effect then, so--

MR. YOSIC: There was the Agreement, and there

were also duties prior to 2006.

COMMISSIONER BROADBENT: Yes.

MR. YOSIC: So perhaps there are industry

witnesses who can answer that question better than I can,

but--

COMMISSIONER BROADBENT: They're all looking

pretty quiet.

MR. MILLER: This is Andrew Miller. I think it's

important to put the context of volume demand as well.

We're doing better today due to the preliminary duties. I

can tell you our sawmills, due to high log costs, lost money

in January and February, and started making money in March

and have done quite well as the result of the rapid increase

in pricing once Canadian mills announced that they expected

to be compensated for the impending duty, and prices popped

almost $100 a thousand in just a matter of weeks.

Our profitability was higher in 2004 and '05, but
we also were experiencing lumber consumption associated with housing starts that were a million six, a million seven, a million eight. I think they even on a monthly basis were topping two million starts. So, you know, tremendous demand.

    We're a long, long, long way from that kind of demand pressure on prices. So the pricing today is abnormally high relative to the demand, and as a result of the duties.

    COMMISSIONER BROADBENT: Well how do you know that the higher prices are related to the prospect of duties? I mean they started before, and--you say it pretty authoritatively, I just wondered.

    MR. MILLER: Our customers told us that, who buy from Canadian companies. Just in a matter of days, they said, you know, prices--we're being quoted $100 more to compensate for expected duty of 30 to 40 percent, and that's the price from Canada, and we're going to take advantage of that and we raised our price up just below theirs. And, you know, I think if these duties were to go away, I think you would see the entire opposite of that effect.

    COMMISSIONER BROADBENT: But the prices did start increasing in late 2015, before--

    MR. MILLER: Marginally so.

    COMMISSIONER BROADBENT: Yeah.
MR. MILLER: I tell 'ya, we got severely shellacked in 2015. All the money we made in 2014 and more was given back in 2015.

COMMISSIONER BROADBENT: Okay. Mr. Yocis, where do you think you are in the business cycle? Can you predict? Or what is your sense?

MR. YOCIS: Well it's difficult to know. As the great Yogi Berra once said, prediction is difficult, especially about the future. And so it's difficult to know, you know, where exactly the business cycle is going.

There certainly is a lot of pent up housing demand, but people have been forecasting housing starts to increase significantly for quite a long time now, and it hasn't really happened yet. So it's difficult to know. But certainly demand has been increasing steadily since the Great Recession. You know, demand has been up every year since 2009, I believe. And so it's steadily increasing.

It's still well below where it was before the housing crash. And so there is some room for growth, but whether that growth will materialize or not is very difficult to say.

COMMISSIONER BROADBENT: Okay. Can you explain why different regions experience different levels of growth in housing starts over the period? Why was there a more substantial increase in housing starts in the West over the
Period of Investigation? Is that just the economy out in the West?

MR. YOCIS: Yes. Housing starts is generally driven by local economy, local business cycle, mortgage rates, availability of labor. It's driven by a number of different factors. And lumber is really responding to that. It's really a derived demand. So it's not like people are going out and building more houses because the price of lumber went down. That's not—you know, your mortgage rate is a much more determinative factor in whether a house gets built or not than what the price of lumber is. So we're just responding to demand,

COMMISSIONER BROADBENT: Okay, but can someone tell me why there was a more substantial increase in housing starts in the West?

MR. MILLER: Because that's where the jobs are.

COMMISSIONER BROADBENT: Right.

MR. SWANSON: I can also respond to that. California by itself is the sixth or seventh largest economy in the world. It's a very desirable place to live, and they have a robust housing market. So Western mills have been able to service that market because of freight advantages.

COMMISSIONER BROADBENT: Yeah, certainly most of the young people I know are moving to California for jobs, so they're doing well out there.
Okay,

MR. ROADY: This is Chuck, Roady from Montana, but I can tell you why they come to our--everybody wants a little piece of Big Sky, and everybody is retiring and coming to our part of the country. And so there's houses being started all over my part of the world.

MR. SWANSON: Can I also add one thing? When you were talking about the price response to the preliminary duties, it was in anticipation of the duties that this happened. And it was really an announcement by major producers within Canada, as reported in Random Lengths, a trade publication, and prices actually increased over 19 percent in one day based upon announcements by Canadian producers.

COMMISSIONER BROADBENT: Okay, thank you.

You are arguing that prices generally decreased over the Period of Investigation, but the data that we collected through June 2017 looks different, to me. Can you clarify your argument, given that both primary and industry data contradict your claim that prices decreased? I know you kind of have an annual--three annual points in your graph, but we're used to looking at a little more granular pricing evidence.

MR. YOCIS: Sure. And if you look at that same period, you will see prices--the overall price level in the
market going down from 2014 to '15, going up from '15 to '16. If you look at it quarterly, or even monthly, you'll see it with some fluctuations but you'll see basically that pattern. If you--

COMMISSIONER BROADBENT: Where would I see that?
The quarterly data?

MR. YOCIS: I believe that's in the staff report.

COMMISSIONER BROADBENT: Okay.

MR. YOCIS: And I believe that if you--yes, in 2017 it is higher, but that is the effect of the duties. As Mr. Swanson said, prices went up very quickly overnight in response to the duties. I believe, if I remember correctly, in Random Lengths it was the Thursday of the first week of February. I forget what the exact date was, but there was a major Canadian producer who said we are raising our prices $100 per 1000 board feet today because of the expectation of duties.

COMMISSIONER BROADBENT: But that was at the point in time when prices were already increasing pretty substantially.

MR. YOCIS: Well they had increased, but they were still below where they were in 2014. They were increasing as demand increased over the period. So you would expect prices to be--you would have expected a steady increase in prices throughout the period because of the increase in
demand, but you didn't see that. You saw prices fall substantially despite increasing demand, and then as the--so you basically have two forces fighting each other in the market. You have increasing demand which ought to be increasing prices, and you have increased supply from Canada pushing prices down. And when demand was going up but more slowly such as from 2014 to '15, the net effect was price declines.

From 2015 to '16, it's a slight price increase. But overall it's those two forces that are going against each other, and certainly with the increasing demand you would expect to see prices increasing, but in fact you have an overall trend of prices falling because the increase in supply from Canada was outweighing it.

COMMISSIONER BROADBENT: Okay. My time has expired. Thank you.

CHAIRMAN SCHMIDTLEIN: Just to follow up on that, so is it your argument that in 2016 prices would have gone up more but for the increase in volume of subject imports?

MR. YOCIS: Yes. We believe that if it were not for the excess supply coming from Canada, that prices would have increased from 2014 to 2015 and they would have increased even more from 2015 to 2016 because the increase in demand was almost twice as large in 2016.

CHAIRMAN SCHMIDTLEIN: Okay, let's see.
MR. YOCIS: So I believe it's 1.7 billion board feet in 2015--

CHAIRMAN SCHMIDTLEIN: Correct.

MR. YOCIS: --and almost 3 billion in 2016. So with the acceleration in demand in 2016, you would have expected stronger prices. And you did have slightly stronger prices, but don't forget Canada is taking almost two-thirds of that increase in demand.

CHAIRMAN SCHMIDTLEIN: So let me just--so from '14 to '15, demand also goes up, right?

MR. YOCIS: Correct.

CHAIRMAN SCHMIDTLEIN: Okay. And in your brief you note that at least for some portion of '14 the SLA did not provide any restriction.

MR. YOCIS: That's correct. Actually for all of 2014 there were no export taxes that applied at all in 2014.

CHAIRMAN SCHMIDTLEIN: Okay.

MR. YOCIS: There were, in 2015 at the lowest level starting in April of 2015, and with the exception of one month and twelve days in October, it was at the lowest of the three different levels in the SLA from April of 2015 until it expired in October.

CHAIRMAN SCHMIDTLEIN: So in '14, when '14 to '15 demand went up, but prices went down in '14, and then it is your--because of the lack of restriction provided by the
SLA? But yet the U.S. industry had a good year that year.

MR. YOCIS: It had a better year than it had in the past, certainly.

CHAIRMAN SCHMIDTLEIN: So does that suggest an implication for our causation analysis? In other words, why, if demand is going up, so that's good, prices are going down, there's no restriction from the SLA, and the industry has a good year?

MR. YOCIS: It has a better year than it did in the period of the downturn. But it ought to have had a better year, an needed to have a better year in the context of the full business cycle.

CHAIRMAN SCHMIDTLEIN: And so can you give us, what should we point to besides your statement that they "should have had a better year"? The same question of how do we quantify, or what evidence would we point to to support a conclusion that prices should have gone up more in 2016?

MR. YOCIS: I think the fact that demand increased. Generally speaking you would expect, all else being equal, if demand increases and supply is going along with demand, that you would expect--you would expect that prices would increase to call forth more supply. Just as a general matter of economics.

CHAIRMAN SCHMIDTLEIN: So is there a--okay, so we
could just point to the general theory of supply and demand
and the effect on price.

MR. YOCIS: That's correct.

CHAIRMAN SCHMIDTLEIN: Okay. Is there a general
level, like an average level of profitability that's to be
expected in this industry?

MR. YOCIS: I think, well, it's difficult to say
what is an expected level of profitability. I think you
need a certain level of profitability over the full business
cycle in order to ensure that you have sufficient capital to
invest, and make the technological improvements that are
needed in order to keep investing. And some of our
witnesses can actually speak to this better than I can.

But you certainly need to make those profits.
Otherwise, you're going to lose market share over the long
term.

CHAIRMAN SCHMIDTLEIN: So in 2014--this is not
confidential, I don't think--the operating margins and the
net income margins, you say those should have been better,
or that the industry had done better in the past. Am I
recalling what you said?

MR. YOCIS: During strong markets. But also don't
forget in 2014 Canadian imports were relatively low. They
were certainly much lower than they were later in the
period.
CHAIRMAN SCHMIDTLEIN: And that wasn't a result of the SLA?

MR. YOCIS: Well certainly not--I mean I think the SLA, even if export taxes were not being imposed, may have had some effect because people knew if prices fell it would come back into place. So it may have had some effect.

But in 2014, you basically have--

CHAIRMAN SCHMIDTLEIN: But prices did fall in--
didn't prices fall in 2014?

MR. YOCIS: No, prices were relatively high. They fell from '14 to '15.

CHAIRMAN SCHMIDTLEIN: Right. But I think when you look over the course of '14, they're going down. I mean when you look at Random Lengths and the pricing products we have, it starts in the beginning of '14 and they start to go down.

So what was driving prices down in that year?

MR. YOCIS: In 2014?

CHAIRMAN SCHMIDTLEIN: Right.

MR. YOCIS: I presume--well, I believe if you're also look at quarterly data you'll see that Canadian imports are increasing over that period, as well.

MR. BENSON: Madam Commissioner, Mark Benson. I'm looking at some data here that would indicate that the fall in '14, the drop in '14, began late in '14. The first three
quarters of '14 were very strong quarters. And then at the end of the year, it was dropping. And then that's what ushered in the devastating year for us of 2015.

MR. BENSON: And, and I know that you don't --

CHAIRMAN SCHMIDTLEIN: I'm looking at the Random Lengths data in the staff report and it -- it's a monthly presentation, and it starts to fall in the beginning of the year, and it falls -- okay, it's a little bit irregular there in the third quarter, and then it comes back down. So it falls throughout the beginning of the year and then it's a little -- jumps up and then it goes back down.

MR. BENSON: Right. And I know that I'm not looking at the same thing that you are, but --

CHAIRMAN SCHMIDTLEIN: Okay.

MR. BENSON: -- it would appear that, in the third quarter, it started relatively high, it dropped, went back up, and then it made the precipitous fall, which finally got close to the bottom in First Quarter 2015.

CHAIRMAN SCHMIDTLEIN: And what data are you looking at?

MR. BENSON: It's some that I have internally. I'm sure that we can --

CHAIRMAN SCHMIDTLEIN: You could provide it?

MR. BENSON: I think it's a Random Lengths composite.
CHAIRMAN SCHMIDTLEIN: Okay, okay.

MR. BENSON: So we can provide that.

CHAIRMAN SCHMIDTLEIN: Okay.

MR. KENTZ: We can provide that in our post-hearing brief, but it is Random Lengths.

CHAIRMAN SCHMIDTLEIN: Okay. All right.

Switching gears just a little bit, when you look at the record, it shows that nonsubject imports also went up over the POI. I'm wondering if you have an explanation for why we see an increase in nonsubject volume over the POI.

MR. YOCIS: I think as prices increase, you see some increase in nonsubject imports. First of all, I would say two things about them. One is, the volume is relatively small.

CHAIRMAN SCHMIDTLEIN: Mm-hmm.

MR. YOCIS: And they come from a variety of different sources. If you look at the average unit value of nonsubject imports, you'll see it's more than double the imports from Canada and so that would indicate that most of them are specialty products.

You'll also see that the decline, that even when prices in the U.S. market generally were declining, the average unit value of nonsubject imports was going up over the period. It increased in each of the years of the POI, which would suggest that the nonsubject imports were not
contributing to the price suppression.

CHAIRMAN SCHMIDTLEIN: But they did take some market share from U.S. producers, right?

MR. YOCIS: They did take some. There's --

CHAIRMAN SCHMIDTLEIN: And why was that? Was that based on price? Or is it based on a different -- that they're providing something different that U.S. producers don't provide?

MR. YOCIS: It depends on the country. I don't think that they're providing any specific product that U.S. producers don't provide. It simply depends on what's going on elsewhere in the world and it depends on where prices are in the U.S., relative to other markets.

CHAIRMAN SCHMIDTLEIN: Okay. So what's -- do you have a theory as to why this was going up? Just because, in 2016, prices were going back up and that was attracting nonsubject? Is that your --

MR. YOCIS: It's difficult to know specifically without knowing specifically which particular products were being imported.

CHAIRMAN SCHMIDTLEIN: Okay.

MR. YOCIS: But the high average unit value would suggest that these were not the bulk of the lumber products that we're talking about. They tend to be specialty products because of the higher price.
CHAIRMAN SCHMIDTLEIN: Okay. Okay. My time is almost up, so rather than going over, I will yield to Vice-Chairman Johanson.

VICE CHAIRMAN JOHANSON: Thank you, Chairman Schmidtlein. And I would like to thank the witnesses for appearing here today. I find today's subject matter particularly interesting. My favorite merit badge in Boy Scouts was Forestry Merit Badge, which I earned at Lost Pines Scout Camp outside of Bastrop, Texas.

Then this August I went on a hiking trip in Olympic National Forest in Olympic National Park in Washington State and I saw lots of trees there, and I also saw lots of timber production. And I understand most of this production was on state land. That's what I was told.

So I learned about trees during my youth in Texas, and I recently became somewhat familiar in the forests in Washington State. And this leads me to a question on regional differences in the industry.

Respondents contend that timber reaches maturity almost twice as fast in the south compared to other domestic regions. And this can be seen at Page 4 of the Joint Respondent Brief. Is this accurate? And if so, should this have any impact in our investigation?

MR. BENSON: Mark Benson with Potlach. We're a large timberland owner, as you know, and we own land in the
Intermountains West, as well as the South and the Lake States. And yes, rotation ages in the U.S. South are about half of what they are in the northern tier. Not quite half of what they are on the West Coast.

And I'm not sure though that rotation age factors into the questions at hand, relative to lumber production. The forest is what the forest is, and the outputs are what they are. And then it's a competitive market for lumber mills.

And, you know, back to the essence of the issue here, that in the U.S., it's a competitive bidding process for that timber, whatever age it is, that maturity, whereas in Canada, there is a subsidized form of acquisition by the Canadian companies. And that's what results in the Canadians' ability to produce lumber at such a lower cost than what we do here in the U.S.

VICE CHAIRMAN JOHANSON: Thanks, Mr. Benson.

MR. BLOCKER: This is Adrian Blocker with Weyerhaueser. We have land, we own land in all of the different major geographic timber-producing regions. And so following up on Mark's comments, he is correct, and you are correct in terms of the different maturity and age classes for mature timber.

I would say that, in all of those three regions, we have very productive timber lands, not only ourselves but
many, many other thousands of private landowners. And we need good strong markets for those timberlands. So I mean, that really plays into the decision here in terms of having good markets and having good returns for the many family farm timberlands that are around.

VICE CHAIRMAN JOHANSON: Also on the whole issue of regions, Respondents argued that in the U.S. South, where the majority of U.S. production occurs, the domestic industry enjoys the cheapest and most abundant timber supply in North America and possibly the world. And this can be seen at Pages 1, 8 and 119 to 120 of their brief. Is timber supply indeed so abundant and low-cost in this area? And how should this factor into our investigation?

MR. BLOCKER: I would answer in a similar way, in that the South is very productive and is producing a lot of timber for our industry. But we don't have the capacity, have not been willing to invest in the capacity necessary to take advantage of this timber base, because we don't have the confidence that we're gonna have the pricing structure going forward.

And just to follow up a little bit on the pricing discussion that was had earlier, you know, we talk about different periods, different quarter to quarter or one year to another year, we don't make investments based on those time periods. We make investments that are a minimum
of five to ten, fifteen and twenty years.

So we have to have a belief that there is an economic structure that allows that over time. And so, you know, for us to look at period to period changes is really irrelevant in terms of our investment.

VICE CHAIRMAN JOHANSON: Thanks, Mr. Blocker.

MR. BENSON: Mark Benson again. I would like to add to what Mr. Blocker said, that--and to answer your question directly--I believe that, yes, there is an indication here on the case itself in that, log prices in the U.S. South are low. There's an abundance of wood and log prices are low.

And yet, log prices are so low in Canada that they can ship lumber 2,500 miles to the Southeast and compete with those low log costs. So I think that's a good marker for just how cheap Canadian logs are.

MR. HOWARD: This is Bill Howard. I'd like to follow up on that, too. We have the retail contractor yard next to our mill.

MR. BISHOP: Could you put your mic a little closer please?

MR. HOWARD: And in that case, there's $108 a thousand freight rate to get a rail car from B.C. down to Statesboro, Georgia. And in most cases, spruce is cheaper than Southern pine right there. Keep in mind that 75% of
our costs in producing lumber is in the raw material.

So earlier when I talked about technologies in production cost, that's a small part of the real costs of making wood. The raw material is where all the cost is. For them to be able to bring wood with a $108 a thousand cost to Southeast Georgia, and beat us with our cheaper log costs, like you're saying, we do have cheap log costs. They're not cheap enough to compete.

VICE CHAIRMAN JOHANSON: Thank you for your responses. Now, I'm moving off of that, off the regional issue. Respondents argue that Canadian producers dramatically reduced capacity during the Great Recession, and that the U.S. industry instead chose to maintain capacity, but reduce production, and this can be seen in Respondents' Brief, Pages 9 to 39. How do y'all respond to these allegations of the Respondents?

MR. YOCIS: This is David Yocis. I can start and then perhaps some of the industry people can speak as well. Certainly in Canada, mills were closed and then mills have reopened in more recent years, especially in Eastern Canada. But also in B.C., even in the areas of B.C. where the pine beetle is most severe, there were a couple of mills that were destroyed of accidents and that were rebuilt as recently as 2014.

But in the U.S., it is true that there were some
mills that stayed open and reduced capacity, but there were
a lot of mills in the United States that closed during the
downturn as well, and I think some of the witnesses can
speak to the details of that.

MR. BLOCKER: So this is Adrian Blocker with
Weyerhaueser. During that period of time, we shut down 50%
of our mills. So, you know, because we, our cost structure
was such that we didn't have the lumber price to support our
cost structure.

VICE CHAIRMAN JOHANSON: Mr. Blocker, when you
say they were shut down, for how long?

MR. BLOCKER: They've been permanently shut
down.

VICE CHAIRMAN JOHANSON: Permanently shut down?
Okay, thanks.

MR. BLOCKER: And now that we are beginning to
generate some cash again, we're taking that cash and
reinvesting in the mills that were remaining, to get them
back to being competitive again. So we don't have enough
cash to do the mills that we had, plus we don't have the
confidence going forward in terms of lumber pricing to put
in new capacity.

VICE CHAIRMAN JOHANSON: Thank you. Mr.
Swanson?

MR. SWANSON: Just to add to that, obviously
we're a much smaller producer than Weyerhaeuser, but we
reduced our capacity permanently by 25%, dismantled the mill
and auctioned off the equipment.

VICE CHAIRMAN JOHANSON: So you all contend that
what the Respondents wrote was not in line with how you see
this situation? In that they took capacity off line and you
all simply, and you did not do so to the same extent?

MR. SWANSON: Inaccurate in my case, for sure.

MR. BLOCKER: Well, we took down ours for sure
on many plants. But at the same time, we also shut plants
down permanently.

VICE CHAIRMAN JOHANSON: Okay. Thank you for
your responses. My time is about to expire.

CHAIRMAN SCHMIDTLEIN: Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you. I'm gonna
turn for a minute to the question about red cedar. How do
you respond to the like product arguments being made with
respect to cedar/redwood? And this category's broader than
the Western red cedar arguments we have considered in the
past.

MR. YOCIS: Sure. I can begin and then perhaps
Mr. Miller is a cedar producer and can add some more to it.
Certainly from the perspective of the producers in the West,
and I think maybe even a place to start even before that, is
that Western red cedar grows --
COMMISSIONER WILLIAMSON: Mm-hmm.

MR. YOCIS: -- timber grows among other species in the West. It's not like there are areas that are stands of Western red cedar that are isolated and are harvested separately. It's all harvested together, and the mills that process Western red cedar often are the same mills that produce other lumber products and other lumber products on the same lines.

And that's true of redwood in the U.S. as well. So in that sense, from a production standpoint, there is a lot of overlap in the production process for red cedar or redwood, as well as for other species. On the demand side, red cedar does compete with Southern yellow pine in decking and in other outdoor applications.

Certainly they're at different price points, but the relative price between them matters. And it matters for the competition and that are between them. And a lot of that is also regional. If you're building a deck in Virginia or in Maryland, it's probably a lot cheaper to use Southern yellow pine. If you're building a deck in Idaho, might be a bit different.

And so, depending on the region, just as for all of the different species of softwood lumber that compete with each other, depending on the region which species are used, is a function of local transportation costs and the
local price difference delivered to a particular market, as well as the differences in physical characteristics. And there's a continuum of pricing for all of these products. And perhaps Mr. Miller can add more to that.

MR. MILLER: Andrew Miller. I'm unfamiliar with the Respondents' specific -- could you elaborate on your question, please?

COMMISSIONER WILLIAMSON: I think in the past, we've just talked about the cedar as a separate product or they argued -- but now, they're combining redwood and cedar. And does that change the argument justification for cedar, including or excluding it?

MR. MILLER: I'm not familiar with the redwood business, but in terms of the competitive impacts of Canadian product, they have the same timber tenure system in British Columbia where the majority of, I think, almost all their red cedar grows, intermixed with the SPF, and so they get the same advantages of subsidized lower-cost log. The cedar logs that are traded in western -- Oregon, Washington, North Idaho, you know, those are all competitively bid, so the price is based on what all of us are willing to pay for a log.

As far as the manufacturing process, we have a mill that on Monday, we produce cedar, 5/4 decking, 1" boards, 2x4 post and rails, Tuesday we'll make 2x4 studs out
of Douglas Fir. Thursday, Friday, we'll make it out of white fir, and maybe the following week, we're sawing Ponderosa pine, and then back to cedar. It reflects what grows in the forest. We don't do anything different, but just run a different log in the mill and make a lot of the same dimensions of product and they are sold to the customer base we sell our framing lumber to.

So, in that sense, it's all kind of one big pot of wood that the pricing is affected by the characteristics that are at stake in this case.

COMMISSIONER WILLIAMSON: Good, thank you. We have another Congressional witness, so I'm gonna stop and I'll come back to you. Thank you.

MR. BISHOP: Our next Congressional witness is the Honorable Steve Daines, United States Senator from Montana.

CHAIRMAN SCHMIDTLEIN: Welcome, Senator Daines. You may begin.

STATEMENT OF SENATOR STEVE DAINES

MR. DAINES: Thank you. Thank you. Thank you, Chairman Schmidtlein and members of the Commission for the opportunity to testify regarding softwood lumber products from Canada.

I come before you to testify on behalf of the Montana wood products industry and the Montana communities
that are dependent upon the jobs and the tax revenue that
are created by sustainably harvesting our forests.

The softwood lumber case before you is truly of
utmost importance to Montana's wood products industry, as
well as thousands of Montana jobs and the state's economy as
a whole.

In the lack of substantive force management
reform and the wildfires that are currently that are
currently devastating Montana, so much of the national news
is understandably fixated on what's happened with Harvey and
with Irma, that we have another disaster on our hands where
the vast majority of the nation's largest fires are
currently burning in Montana.

This extends certainly beyond Montana as well
for the forested communities up in the northwest part of our
country. These fires that we see only exacerbate the
negative impacts of subsidized imports of softwood lumber
from Canada.

Let me give you an example. Mineral County is
in western Montana. That county was founded in 1914. It
has a long history of being a community that thrives off the
abundant natural resources, the national forest that
surround them.

The first of many saw mills came to the area
around the turn of the 20th century. And for decades, the
industry thrived and Montana's worked hard. They earned
good money in the timber industry. But in the early 1990s,
things began to change.

The community that once thrived on the abundant
resources surrounding them now sit with one of the highest
unemployment rates in our state. In fact, when I've spent
time up in that part of our state, I will hear comments like
it's beautiful here, but we call it poverty with a view.

Today, Mineral County has just a single lumber
mill. And their folks there watching today are mismanaged
national forests burn up and they're facing unfair
competition from subsidized Canadian lumber.

I appreciate very much so the Commission's
unanimous decision earlier this year to maintain the
countervailing duty and anti-dumping duty investigation on
softwood lumber imports from Canada and urge you to act in
an expedition (sic) manner to ensure that Montana mills are
able to compete on a level playing field.

Montana's forests and our lumber mills create
some of the highest quality lumber in the world. And if
they're provided with a level playing field and the
enforcement of U.S. trade law, there's great potential for
maintaining or manufacturing base and providing for economic
growth in the state and across the country, as well as
reducing the risk and severity of wildfires.
Canadian producers have already been found by
the Department of Commerce in a preliminary determination to
have been dumping in the U.S. market and injuring U.S.
producers. For too long, unfairly subsidized Canadian
softwood lumber has had a significant negative impact on
Montana jobs. I recently met with some our county
commissioners. Because of the declining production on our
national forests, the declining revenues because of course
federal lands do not paying taxes. If we can't get revenues
from timber harvest, our counties don't have a lot of other
options here to get revenue support infrastructure,
literally having a county commissioner have to jump on a
grader and plow a road in the winter time to get school
buses out to get our kids on the buses and safely to school
because we're not able to get the full staffing we need here
just to grade the roads.

And it's critical that Canada plays by the same
set of rules that Montanans do. I support the ongoing
negotiations currently taking place to reach a new softwood
lumber agreement. That being said, an agreement is not an
end to itself. It is a means to an end. It needs to be
fair, it needs to be effective agreement that creates truly
this level playing field we're seeking for Montana producers
that support Montana jobs.

Until such an agreement is reached, the U.S.
should enforce all existing and appropriate U.S. trade laws. I urge the Commission to work in a prompt manner to work to this level playing field we seek for Montana and U.S. lumber mills and to mitigate the negative impacts subsidized Canadian lumber has had on the industry and the communities that depend upon on them.

I want to thank you for the opportunity to testify on this most important matter. Thank you.

CHAIRMAN SCHMIDTLEIN: Thank you very much. Are there any questions for the senator? No. All right, thank you.

MR. BISHOP: Madam Chairman, that concludes Congressional testimony for today's proceeding.

CHAIRMAN SCHMIDTLEIN: All right, thank you.

Commissioner Williamson?

COMMISSIONER WILLIAMSON: Okay. Thank you. I'm going to turn this question to cedar and redwood. And this is a question for Mr. Blocker. I was wondering what is Weyerhaueser's position on this issue given the letter that is included in respondent's brief on this issue where they said Weyerhaueser submitted a letter in December 2016 stating their western based cedar should be treated as a separate product and that there was not sufficient U.S. supply?

MR. BLOCKER: Yeah, so we don't manufacture red
cedar, so I don't have much knowledge about that.

COMMISSIONER WILLIAMSON: Okay. If there's any
you can post hearing given this letter and what the --

MR. BLOCKER: Yeah, we can certainly do that.

COMMISSIONER WILLIAMSON: Okay.

MR. YOCIS: Again, I have one comment on it,
Commissioner.

COMMISSIONER WILLIAMSON: Sure.

MR. BANAHAN: We produce --

COMMISSIONER WILLIAMSON: I'm sorry.

MR. BANAHAN: Steve Banahan --

COMMISSIONER WILLIAMSON: Yeah.

MR. BANAHAN: Pleasant River Lumber.

COMMISSIONER WILLIAMSON: Yeah.

MR. BANAHAN: We produce eastern white pine.

And we compete with red cedar products for -- it's used for
siding. It's so -- even though it's not the same product,
it's used for the same purpose. So people use it to for
siding for their homes. If they don't use red cedar that's
subsidized, they may choose to use eastern white pine bevel
siding or a ship lap rougher head siding. So even though
it's not the same product, it's in the same bowl of
products and it competes with us for the same business.

COMMISSIONER WILLIAMSON: Is there a big price
difference there generally?
MR. BANAHAN: Yes.

COMMISSIONER WILLIAMSON: Uh-huh.

MR. BANAHAN: And price is the issue.

COMMISSIONER WILLIAMSON: Okay, good. Thank you.

MR. BENSON: And this is Mark Benson.

COMMISSIONER WILLIAMSON: Sure.

MR. BENSON: From a forest owner's perspective and specifically in Idaho, where a 10 or 12 percent of our forest inventory is cedar, I just re-enforce what you heard from Mr. Miller that as we manage and harvest and deliver logs, there's nothing special about red cedar. It's all part of the same process that we treat it, just as he does. You know, we cut a Douglas Fir one minute and a cedar the next minute. And they find their way to the same mills.

COMMISSIONER WILLIAMSON: Okay, so it's just that one might give them more money by it's still --

MR. BENSON: Correct.

COMMISSIONER WILLIAMSON: Yeah. Is -- does it operate the same way in Canada? I mean, the cedar's been dispersed with all the other products or are there other -- or do you have stands of cedar?

MR. BENSON: Yes, that's correct. And I'm sure that the Canadian witnesses this afternoon can describe it better than we can from more firsthand knowledge, but my
understanding is, yes, that they are sold as a unit and
that's part of the Commerce evaluation of the pricing for
subsidy purposes.

COMMISSIONER WILLIAMSON: Okay. Okay. Thank
you for those answers. Mr. Yonis (sic), in your brief, you
take no position on exclusion of related parties. Given the
size of some of the other companies involved, it would be
helpful to have more from you on this issue. So I urge you
-- and I guess you probably are going to do this
post-hearing to get further details on this issue.

MR. YOCIS: Sure, we can certainly talk about
that, you know, the -- about individual companies in the
post-hearing. I think from an overall industry perspective,
whether related parties are included or excluded, the
general trends in terms of industry performance are largely
the same and sort of -- and I think one of the things that
happens and I understand that that's the decision the
Commission has to make, but in -- on the one hand, you have
sort of one extreme of either a U.S. producer that's related
to a Canadian producer is either 100 percent in the case and
they're treated just like every other producer, or they're
100 percent out of the case and we just ignore them.

And we think it's more important to recognize
from issue to issue as a condition of competition the fact
of -- so that some U.S. producers are now related to
Canadian producers is an important fact that may or may not be relevant factor by factor case by case.

So for example, we, you know, we talk in our submission about Interfor. And that's -- there's some public information there about Interfor, which has significant operations in both the United States and Canada, actually more in the United States than in Canada. And yet, they close -- they have closed during the period of investigation. They have permanently closed mills in the United States while investing in and upgrading their mills and expanding production of their mills in Canada.

And that they've made some of these announcements simultaneously. And that to us is a relevant fact to the condition of competition. Whether that company is included or excluded, or whether other companies are included or excluded, you know, we think that's it's important factor by factor. And there's some others that we talk about on a confidential basis. And we can perhaps provide some more in the post-hearing.

But from our perspective, ultimately, at the end of the day, from -- the Commission's analysis isn't all that different whether companies are in or out. It's more, you know, is the Commission able to take into account the -- that relationship as necessary and as appropriate when -- by point factor by factor.
COMMISSIONER WILLIAMSON: Okay, okay, thank you. And my time as just expired.

CHAIRMAN SCHMIDTLEIN: Okay. Commissioner Broadbent?

COMMISSIONER BROADBENT: Thank you, Chairman Schmidtlein. Let's see. Canada is a country is lot of forest acreage and relatively few people. Wouldn't it make sense that Canada would have a comparative advantage in terms of lumber exports? To what extent do you think Canada's exports to the United States are a result of subsidies as opposed to comparative advantage? Mr. Yocis?

MR. YOCIS: Yeah, I can try to address that. I think on the question of comparative advantage, one of the issues, and I'm not an economist, but I've hung around economists long enough to have learned to avoid a couple of things. You know, if you go back to and I'm -- now I'm blanking on, you know, when England produces wool and Portugal produces wine. You know, when you go back, is that him? I can't remember who that is. I can't, but anyway, you know, the industry of the standard examples of comparative advantage.

The question is where does the country invest its resources, invest its labor, and best produce what items versus importing them? It doesn't say anything about price. Even if it were true that Canada has more trees than people,
the United States has more people and, well, it has a lot of
trees, but it has certainly enough to supply a lot more
lumber than we are now.

But even if it were true that Canada had more
trees, it doesn't mean that the trees in Canada should be
cheaper or that Canadian lumber should be cheaper than
lumber in the United States. The overall -- the price is
determined by overall supply and demand, not by comparative
advantage.

So I think the question of subsidies and unfair
other unfair practices of dumping and so forth are really
separate from the question of comparative advantage. It
doesn't mean that Canadian lumber should be any cheaper or
should be -- that Canadian timber should be priced any
differently.

I also believe that in a truly fair pricing
environment in unsubsidized world, if Canada had the same
market for timber as we do in the United States, or we had
the same system that they do, that Canada would certainly
supply some portion of the U.S. market. That's certainly
true.

But the question is are the -- is the U.S.
industry worse off because Canadian imports are higher than
what otherwise be and would priced lower that what they
would otherwise be because of subsidies and dumping? And I
think that's a completely separate question from comparative advantage and what the "natural market share" would be.

COMMISSIONER BROADBENT: Mr. Yocis, how long have you been representing the lumber industry?

MR. YOCIS: Off and on since 2001.

COMMISSIONER BROADBENT: Okay. Because I -- it's been a dispute that's sort of lots of friction between the U.S. and Canada. And we've tried lots of different ways to manage it as you know.

Is there any more long-term solution that you're considering? How do you see the negotiations going. I know the senator just spoke to us about his strong support for the negotiations and I wonder if you had any ideas in that regard?

MR. YOCIS: We have a number of ideas at which we have raised with both the U.S. Trade Representative's office and with the Department of Commerce. I think ultimately, it's better -- ultimately, I think both sides would be better off with a trade agreement than with trade revenue cases.

And that that would provide more certainty to producers on both sides of the border, but coming to an agreement that is acceptable to both sides has proven difficult. And it's something that we hope to continue and to support the two governments in reaching an agreement as
quickly as possible.

In the absence of such an agreement, the U.S. industry really has no choice but to seek enforcement of the U.S. trade laws. Those are really the only options that we have.

COMMISSIONER BROADBENT: What are the -- are you able to speak to what the biggest speaking points are in the negotiations?

MR. YOCIS: Well, it's an agreement between the two governments. And so, we certainly are not privy to all of the different discussions that are taking place. So I think, you know, it's probably best that we let them do that, rather than speculate on what we think might be the issues between the governments or what the Canadian industry might be willing or not willing to do. It's probably best not for us to do that in public.

COMMISSIONER BROADBENT: Do the industry representatives want to indicate what they might need in these negotiations? Okay.

MR. SWANSON: Can I go back to your previous question on the timber supply situation?

COMMISSIONER BROADBENT: Sure.

MR. SWANSON: So if you go back to 2004 and '05, here in the U.S., housing starts were in excess of 2 million. And Canada market share was in the mid-30s.
nothing has really changed between both countries in terms of the availability of timber. And if you just take the math of the lumber being consumed today with 1.3 million starts and apply the math, the U.S. had enough wood to supply 100 percent of today's market.

MR. HOWARD: And if I -- Bill Howard. If I could interrupt real quick. Also, we just finished talking about one of the questions was the southeast and how big the market was, the timber market there was and the low cost. But yeah, we still struggle to compete with Canadian imports. So there's a lot of wood on the south.

COMMISSIONER BROADBENT: Okay.

MR. HOWARD: Sorry not wood, timber. Let me rephrase that.

COMMISSIONER BROADBENT: Okay. What is your sense on the effect of -- the hurricane damage will be on rebuilding and demand in the market?

MS. DAUZAT: We think, you know, just with history with Katrina, most people tore the sheetrock out, the houses were dried out, and then they were reconstructed. Now there's a little construction, but there wasn't a big blip after Katrina. And we're not really anticipating a big blip after these storms.

COMMISSIONER BROADBENT: Well, that's interesting. Yeah, I didn't realize that. Would it benefit
the U.S. lumber industry to have a greater volume of
Canadian logs available? I mean, there are expert
restrictions in Canada on logs as I understand it.

MR. YOCIS: This is David Yocis. I can try to
at least maybe start that and then perhaps others can speak.
I think certainly if there were more Canadian logs available
in the U.S., there were would be U.S. producers who would be
willing to buy them. U.S. producers are certainly competing
in a market for logs with overseas demand with producers of
other products, such as plywood and so forth. And certainly
they would welcome certainly more log supply.

I think if Canada had a fully open market, it
would affect log pricing even more than it would where the
logs were sold. It's more, and from our perspective I think
it's more about the fact that Canadian log costs are
insulated from world markets, but that's really more of a
Commerce subsidy issue than it is something that I think the
Commission typically looks at.

COMMISSIONER BROADBENT: They're insulated from
world markets? How so?

MR. YOCIS: In terms that their timber pricing
is not as related to world market prices for timber as the
timber prices are in the U.S. And that's sort of the nature
of the subsidy that Commerce is looking at, that the pricing
practices of the Canadian provinces and the fact that the
logs can only be used in Canada do insulate their producers, but that's the nature of the subsidy. And so, again, it's more that's really more of a Commerce issue, I think, typically than a Commission issue.

COMMISSIONER BROADBENT: Right. What is the current state of export restrictions in Canada on logs?

MR. YOCIS: All the provinces have restrictions on the export of logs harvested from Crown land, which is most of the logs in most of the provinces. In British Columbia, there are also restrictions on the export of private logs -- logs from private land. Those restrictions can be lifted. And in fact, there are significant volumes of log exports out of BC in the last couple of years, but only for the logs that BC mills don't want -- only for logs that BC mills have agreed to allow to be exported.

So again, we come back to -- from our perspective, it's really more that because the BC mills can block the exports of logs that they want to purchase and that they can purchase at a below international price, it's really more of a subsidy issue than it is a log supply issue for other producers. There are logs that are exported from BC at a higher price than what the BC mills pay, but it's only if the BC mills don't want them and they can claim them at the lower price.

COMMISSIONER BROADBENT: Okay, thank you.
MR. ROADY: I can expand a little bit on that.

COMMISSIONER BROADBENT: Yes, real quickly.

MR. ROADY: We get contacted all the time by Canadian suppliers, but in the end there has to be an exemption signed by the Canadian companies that's in their area or their allotment or their license area. And so if they have any use for those logs, they don't sign that exemption and so at some times like right now if there's a species they don't use and the exchange rate is really high in and they will bring it across, but it just depends on the time and if they're not have any use for that wood.

COMMISSIONER BROADBENT: Okay, thank you very much.

CHAIRMAN SCHMIDTLEIN: So Mr. Yocis, if we could go back to what was happening in 2015 and how that relates to 2016 because I just want to make sure I'm understanding what the theory is. So when I look at 2015 -- and what I want to understand is how this relates to the SLA, right? And so in 2015 the SLA was in effect, did have restrictions in place, and yet, we see prices going down in 2015 even though demand is going up, not as much as it did in 2016, but from '14 to 15 it went up and the U.S. industry has its worst year, by far.

So then in 2016, right, the SLA expires at the end of October, I believe, right, in '15.
MR. YOCIS: Right.

CHAIRMAN SCHMIDTLEIN: So almost the entire year, not quite. 2016, no SLA, we see demand going up and prices going up even though there's no restriction in place and imports go up and despite that the U.S. has a good year. Let's say a much better year than they did in '15. So can you walk me through, in terms of the market dynamics and how it relates to the SLA and when it's in place and when it's not?

MR. YOCIS: Sure. So I think one of the -- so from 2014 you have Canada at roughly, I believe, 28 percent market share, relatively high prices, relatively strong U.S. performance. From 2014 to 2015, the demand goes up. Canada takes most of that demand. They take two-thirds of the extra demand, so U.S. production increases only slightly and the prices in the U.S. market fall because there's more Canadian supply that is out -- well, more supply we know because prices are falling. More supply is outweighing the increase in demand and so prices are falling. And why are they falling, well, because supply is increasing faster than demand. Where is that supply coming from? Additional supply is coming primarily from Canada.

Now it's true in 2015 you have for six months, or six months plus 12 days you have export taxes being imposed under the SLA. For four of those months or five of
those months, the export tax is 5 percent on BC and Alberta and 2 percent on Ontario and Quebec and Manitoba and Saskatchewan, so much lower rates than what you're seeing in 2017 with the preliminary duties. So those SLA export taxes were not sufficient to slow the increase in Canadian imports, just one of the reasons the U.S. industry did not agree to extend the SLA when it expired because we saw what was happening in the market even with the SLA in place.

And then from 2015 to 2016, yes, demand improves. Canadian imports again take the majority of the increase in demand, but the increase in demand in 2016 is bigger than the increase in 2016. So yes, prices do recover a little, but they're still not back to where they were in 2014. U.S. industry performance improves a little, but not back to where it was in 2014. And it's only in 2017 in the interim period when the preliminary duties are in place that you actually see a strong increase in prices and the strong increase in U.S. industry performance, but that's the result of the duties.

CHAIRMAN SCHMIDTLEIN: So in 2016, I mean, the U.S. industry performance doubles, almost triples from what it was in '15.

MR. YOCIS: From a relatively low level in 2015, yes.

CHAIRMAN SCHMIDTLEIN: Right, right. And you've
got Canadian imports, in terms of the percentage jump, not quite doubling, so I guess that's what I'm trying to get my head around. The industry is doing well when the Canadians are here more, right, so the Canadians increase and the industry does better and prices go up, so that's what I'm trying to make sense of that sort of contradiction with regard to causation.

MR. YOCIS: Sure. And I think I would say that because there are two things going on. There is increased demand and there is increased Canadian supply. And the question is which of those -- so if you're looking just sort at absolute price trends, the question is which of those is moving faster than the other and sometimes the increase in demand is going slightly faster than the increase in Canadian supply and so prices are increasing. But the question is if Canadian had been fairly trading and Canadian imports had been rising commensurate with their market share -- if they had been taking 28 percent and not 62 or 63 percent of the increase in imports, there would be that less supply in the market and either more U.S. production or higher prices or probably both. And so the question is, is in what ought to have been a very good year with demand increasing by almost three billion board feet, that's 7 to 8 percent decrease in demand in what ought to have been a very good year it was a little bit better than the bad year
before.

So from our perspective, in the context of the business cycle, that would be injury.

CHAIRMAN SCHMIDTLEIN: Okay. Can you respond to the Respondent's argument with regard to why 2014 isn't a good comparison? And they lay out a theory having to do with expected shortfall and that's why prices went up and that 2015 was really just an adjustment from a reaction -- you know a fearful reaction in the market in 2014, or maybe one of the industry witnesses would like to respond.

MR. YOCIS: And perhaps one of them might. I can just start off. And again, from an economics point of view, both the supply and demand of lumber are relatively inelastic. I mean trees take a long time to grow and so the supply of lumber -- the supply of timber and therefore the supply of lumber doesn't change a whole lot with regard to price; likewise, with demand. Demand is being driven by housing. Housing is being driven by other things than lumber and so it's relatively inelastic. That means your supply and demand curves are both a lot more vertical than you might see in another industry. That means small variations in supply and demand can have big impacts in price.

And so with that as background, yes, as the industry began to recover from the recession, what you saw
was, and you saw it happen on several occasions,
occasionally demand would run ahead of price in the very
short term, meaning demand is up, maybe a little bit more
than people thought and you've got to -- you've got logging
contractors that went out of business during the recession
and so you can't just turn up the logging contracting you
know and turn that on overnight.

It takes some time for things to build up and so
you have these short-term increases in prices where prices
will go up very quickly and then come back down really for
very short-term supply and demand balance reasons rather
than the longer term trend. And that's one of the reasons
why in terms of trying to evaluate and assess things like
inelasticity of substitution and other things as we point
out in our submission. You really can't look at trends from
one week to the next or one month to the next and try to
figure out everything that's going on in the market.

It's over a period of quarters and years that
you see, as Canada's market share goes up, what the impact
of that is on price, so yes, there were some short-term
increases in price, especially, in 2013 where prices did
increase quickly in response to very short-term factors and
then came back down quickly again. So I think you just have
to distinguish between the very short-term things that
happened at different times in the market and the longer
term trend, whether the longer term trend is consistent with
the longer term trend in demand that's happening from one
year to the next, but perhaps some of the witnesses can talk
about how that works.

MR. MILLER: I would encourage you to look at
the substantial data in our case regarding underselling as a
good indication of what pricing would be when you multiply
that higher potential pricing against the large volume that
has a significant impact on operating income and cash flow.

And as Mr. Blocker mentioned earlier,
investments we make in our mills and particularly with
regard to decisions to hire people these are long-term
decisions. You know I'm sitting on a capital project to
upgrade a mill with at $10 million price tag. That's a
five, six-year payback investment. I have to not only
contend with a normal economic business cycle that goes on
for a variety of reasons, then I have to contend with the
impacts of unfairly traded Canadian lumber depressing
pricing in periods of time that are totally unpredictable.
And in my experience over the 30 years I've been in this
industry is their behavior depresses prices sometimes most
severely in down markets, so I've got to think about the
next recession in housing compounded by the subsidized
Canadian lumber that tends to press prices even lower
because they're insulated from the marketplace impacts of a
normal economic cycle. So we have a lot of evidence that indicates we're being consistently undersold, which means our prices are lower than they otherwise would be and our level of profitability, which is necessary to make these significant investments to upgrade our mills and expand them.

CHAIRMAN SCHMIDTLEIN: Is this Exhibit 31; is this what you're referring to, the evidence of the underselling?

MR. MILLER: Yes.

CHAIRMAN SCHMIDTLEIN: Okay, alright.

MR. BANAHAM: I would agree with him. I think what we're seeing is the inelastic supply. When we see upticks in demand, you're not seeing an uptick in production from us and the Canadians are grabbing that market share. And the reason you're not seeing that uptick in supply from the U.S. side is because (A) capital and people don't want to put that capital into a risky market on a short-term gain. It's got to have a five or ten-year very sustainable trend in order to see the investment on the U.S. side and that is, in essence, our case. Thank you.

CHAIRMAN SCHMIDTLEIN: Alright, thank you.

Vice Chairman Johanson.

VICE CHAIRMAN JOHANSON: Thank you, Chairman Schmidtlein. Respondents have quoted public statements from
members of the petitioning coalition to the effect that the surge of imports that was expected after expiration of the 2006 SLA in 2015 never materialized, and this can be seen at pages 13 -- I'm sorry, 133, note 473 of their brief, quoting Weyerhaeuser and Potlach 2015 third quarter earning calls. Resolute identifies additional quotes from 2017 to the effect that the industry has enjoyed excellent results despite the lack of duties on Canadian lumber in 2016, and this can be seen at Resolutes brief at pages 5 to 6. How should we weigh all of this evidence, including statements from Coalition members?

MR. BLOCKER: We have had better results, but you have to remember that our results -- better results, if you will, are coming off a period of historic losses, so having better results after losing money is pretty easy. You know the other thing is we are investing the money that we do have back into our existing mills to improve their performance, so we're getting a lot of improvements from our existing mills. At the same time, we're not convenient in adding new capacity because of the uncertainty around the Canadian imports.

MR. JOHNSON: Commissioner, one other point. I think we can't look at just their overall performance because they also have profits coming from OSB, from engineered wood, from a lot of other products, from
timberlands, whereas, it's not all coming from their sawmill divisions in softwood lumber. So it would be unfair to look at those profits and say, oh, therefore they don't need any assistance because there's a lot of here that are strictly independent sawmill operators that don't have all those benefits.

VICE CHAIRMAN JOHANSON: Thank you for your responses. And this is a purely legal argument, what is you all's best argument for a claim of price suppression on this record? And if that's kind of difficult to answer right now feel free to respond to it in your post-hearing brief.

MR. YOCIS: We will respond to it in the post-hearing brief. I think our argument will be twofold, one is the general trends in price, which is that, overall, for the period of investigation as a whole, with the exception of the interim period, which is different because of the affect of the duties. But over the period as a whole where Canada's market share is going up, prices, notwithstanding higher demand, are lower than they were at the beginning and so there is the general price trend.

I think the second thing would be to say, if you look at the specific lost sales that have been discussed and reported and in many cases document, you have numerous instances time and time again where U.S. mills are being told by their customers we're switching from your product to
the Canadian product because the Canadian product is cheaper. That is confirmed by all sorts of reports in the trade press, so Random Links. Can't tell you the number of times -- and we have a number of quotes in our brief and I'm sure we could provide more -- the number of times over the last three years where Random Links will say prices of "X" product are lower this week because of increase supply from Canada. You see it over and over and over again and that is confirmed by what the individual producers are reporting, what their sales people are reporting, that they're losing sales because Canadian wood is lower priced.

Mr. Swanson mentioned, for example, earlier in his testimony from Phoenix where his mill used to sell a lot of white Fir into the Phoenix market for housing and the customers there said to him, beginning in 2014, we're getting a lot of really cheap SPF from Canada. We're going to use that instead because you can't match that price. And so when you have that sort of repeated evidence over and over again throughout the country throughout the period that, to us, is strong evidence of price suppression.

VICE CHAIRMAN JOHANSON: Thank you, Mr. Yocis, and I look forward to reading anything that you all put in the post-hearing brief.

Respondents contend that the import data in the prehearing staff report failed to incorporate an important
correction to 2016 data, and this can be seen at page 61 of their brief. Do you agree and does this make a difference, in your view?

MR. YOCIS: There have occasionally been what looks like -- at least from the outside, look like anomalies in the trade data. There were some in 2016 that I believe have been corrected. I don't know if that's in the staff report or not, but when we've tracked the data even when those anomalies are corrected the general, overall trends are pretty much the same. You could say the same thing about third country imports in February of 2017. That number looks very strange when you look at it and is, I think -- I've seen comments in the trade press of people saying that that's got to be a data error and I'm sure that'll all get corrected too.

So overall, I think one those errors have been corrected they have not changed the overall trends, but we can see in post-hearing if we can come up with some more recent data and provide that to you.

MS. HESTER: If I understand your question, this is the correction to the Census data. And in our prehearing brief, the corrections have all been made, so any of the charts and tables in our briefs incorporate the latest corrections and I'm sure the staff report will incorporate those, but they are significant enough to really move the
VICE CHAIRMAN JOHANSON: Alright, thank you, Ms. Hester.

In the preliminary phase and in prior determinations regarding softwood lumber, the Commission has found that prices of a particular species will affect the prices of other species, particularly, those that are used in the same or similar applications. Please explain if you agree with this finding, and if so, what evidence the Commission should consider in its price affects analysis?

MR. HOWARD: In the South, it is all price related. The southeast framing you can use pine, Doug fir, Amber Fir or eastern spruce, western spruce, so they're very much the same. It's all price driven.

VICE CHAIRMAN JOHANSON: Mr. Swanson?

MR. SWANSON: Yes, we reported lost sales in Phoenix, Arizona where white Fir was displaced by SPF and it was purely a price issue.

VICE CHAIRMAN JOHANSON: Okay, thank you for your response. And then I have kind of a general question, something which really wasn't raised very much and maybe there was a reason why, but I know there have been great restrictions on -- or significant restrictions on timber harvest in the United States due to various environmental rulings. I think of the Northern Spotted Owl in California
and that's like 20 years or so ago and I believe there's a
Yellow Cockhead Woodpecker in the southern states. I know
that U.S. environmental laws are particularly strict or at
least you all might interpret them that way. Does this make
it easier for Canadians to produce timber? Do they have
same times of regulations? And this is perhaps a better
question for them, but I wanted to raise it with you all
since you're the competitors.

MR. SWANSON: So this is Steve Swanson. I'm not
particularly well versed in Canadian environmental laws, but
there is plenty of wood in spite of the restrictions here in
the U.S. for us to supply our own market.

Were it not for the suppressed prices that we
experience in the west today, we would be buying logs that
are currently going export from the U.S.

VICE CHAIRMAN JOHANSON: So you all -- you do
not see these environmental regulations tightening your
supply to a significant degree?

MS. DAUZAT: This is Caroline Dauzat. In the
south, it's mostly private ownership. We have a little bit
of federal land and it's the red cockaded woodpecker.

VICE CHAIRMAN JOHANSON: Okay, not yellow, I'm
sorry.

MS. DAUZAT: Yeah.

VICE CHAIRMAN JOHANSON: I forget the one --
MS. DAUZAT: We have that close to one of our mills, but there's so much private ownership in the south, it's not --

VICE CHAIRMAN JOHANSON: Okay. I used to live in California. I heard all about the northern spotted owl. So I had to ask this question.

MR. SWANSON: And the industry has adapted to the environmental restrictions. And the industry as it exists today is harvesting primarily on private land throughout the country.

VICE CHAIRMAN JOHANSON: But didn't -- I'm thinking back to the northern spotted owl. Didn't that lead to the closure of a number of mills at least in California? This is a ways back I understand, but that was my impression at least.

MR. SWANSON: That's accurate.

VICE CHAIRMAN JOHANSON: Okay.

MR. BENSON: And this is Mark Benson. With respect to the environmental restraints in Canada, which I also am not an expert in, however, anecdotally, we hear and have heard now for a decade that Canada, because of insect infestations, fire, environmental restrictions is going to decrease their outputs. But yet, we have not seen anything to indicate any decrease in outputs. So there's a little bit of a disconnect in what we hear versus what we see at
the border.

CHAIRMAN SCHMIDTLEIN: All right, thank you, Mr. Benson. My time has expired.

MR. BANAHAN: Commissioner, just one quick comment, Steve Banahan. What was actually seen is an accelerated cut on the Canadian side. Western because the mountain pine needle, they've actually encouraged their mills to cut more wood, which has put a lot of pressure on the U.S. market. And now on the East Coast, we're seeing the spruce budworm come back. And they're doing the same thing on the East Coast, which is actually accelerating their cuts as opposed to restricting their cuts as it's happening in the U.S.

VICE CHAIRMAN JOHANSON: Has that occurred in United States as well due to let's say infestations?

MR. BANAHAN: Not in the same time frame. We have had mountain pine needle infestations in the past. We have had spruce budworm epidemics in the past, but not in the current years.

VICE CHAIRMAN JOHANSON: Okay. Thank you for your responses.

COMMISSIONER WILLIAMSON: Okay, thank you. Just to clarify, so what you're saying is they're pushing out more wood than they otherwise would to harvest it before the beetle gets to it, is that it?
MR. BANAHAN: That's correct. They're harvesting wood that's been killed by the mountain pine beetle out west. They've been doing so for the last 15 years at least. And they keep saying that it's going to run out, but they keep extending that time frame. So we've seen no let-up in production from B.C. And now we're seeing an uptick in production from Quebec because of the spruce budworm epidemic there. And they're -- and we're anticipating more pressure from Quebec producers.

COMMISSIONER WILLIAMSON: Okay, okay. Thank you. What's -- what data sources are most useful for assessing the demand for softwood lumber and what should we be focusing on in our analysis?

MR. YOCIS: This is David Yocis. I can try to start that and then perhaps others may want to supplement. I think in terms of demand, for historic purposes, we generally use consumption. And that is tracked by certainly for, you know, for apparent consumption, there is data from -- the Western Wood Products Association, WWPA publishes monthly data on U.S. production and U.S. shipments. That with a two or three month lag. And then you have import statistics and export statistics, so you can see historically demand from those sources. And that's generally accepted by everyone as being accurate.

In terms of projections, generally, there are
lots of people who project housing starts. And using
housing starts as a general proxy for what lumber demand is
likely to be, but that, you know, those forecasts are
dependent on macroeconomic variables and those obviously are
often difficult to predict.

COMMISSIONER WILLIAMSON: Okay. Thank you. To
the extent you haven't addressed it, do you have any
comments on any of the public data sources used in various
parts of the pre-hearing report? Are there any limitations
or concern with any of these data that we should be aware
of? Again, if you haven't addressed these points already.
And if you want to do it post-hearing, that's fine.

MR. YOCIS: We can do it post-hearing. I mean,
generally speaking, most people use Random Links pricing.
And that's based on, you know, random -- others here for
contribute to a Random Links perhaps can just describe it
better. It's generally speaking the people make Random
Links to survey the industry and it's their best judgment as
to what the current price is. And that's published weekly
with an interim one. And it's often used in the industry as
a benchmark for contract pricing and things like that. So
it's probably the best thing out there for lumber pricing
information.

COMMISSIONER WILLIAMSON: Okay.

MR. HOWARD: This is Bill Howard.
COMMISSIONER WILLIAMSON: Sure.

MR. HOWARD: On the Random Links, it pretty much is the gospel. It is the marker report that everybody uses. And the mills and wholesalers and end users send in numbers on Thursday what they're selling and buying product for and that's how they come up with their information.

COMMISSIONER WILLIAMSON: Okay, okay. Thank you. If Commerce excludes Atlantic lumber board certified lumber from the scope, what would be the best sources of data to use to exclude such imports from our analysis?

MR. YOCIS: Sure. The exclusion that Commerce has proposed is for -- is not 100 percent automatic excluding lumber produced in the three provinces of Nova Scotia, Prince Edward Island and Newfoundland. It's lumber that's certified as being produced in those provinces and meeting certain other standards.

So, you know, first of all, there's no certified lumber during the period of investigation. So I'm not sure if it should be excluded or not, because it literally -- being not certified wouldn't have met the standard during most of the period of investigation.

Here, the certification didn't start till April of 2017. But if you did, I believe Stats Canada publishes export figures by province. And that probably would be the best proxy if you wanted provincial data on exports to the
United States by Canadian province.

COMMISSIONER WILLIAMSON: Okay. Good, thank you. You told us a little bit on this already, but at page 2^25 of the pre^hearing report states that most responding purchasers reported that they would have to change construction techniques or R value number if they switch between species. Does this indicate significant limitations on substitutability among species? I kind of asked this earlier, but anybody has any additional comment?

MR. MILLER: This is Andrew Miller. I don't even quite understand the context of that statement. It's -- products are highly interchangeable across uses and completely interchangeable regarding specie.

COMMISSIONER WILLIAMSON: Okay. So are you say that any adjustments someone may make because a species are different are not that significant in terms of --

MR. MILLER: I see no experience, other than price, in terms of people's selection of framing lumber choice. It's as Mr. Howard's mentioned several times, it's what is the lowest cost product available today to construct the building or meet the requirements of the job?

COMMISSIONER WILLIAMSON: Uh^^huh.

MR. MILLER: Specie doesn't play a factor whatsoever in my opinion and experience.

COMMISSIONER WILLIAMSON: Okay. Anybody else
want to add anything now in that otherwise? Okay. Thank you. What explains the level -- the low level of exports by the domestic industry? This is just --

MS. DAUZAT: Demand is in the U.S.

COMMISSIONER WILLIAMSON: Okay. And there's nowhere -- MS. DAUZAT: We sell into the U.S. mostly because that's where our customers and demand is.

COMMISSIONER WILLIAMSON: Okay. And nobody else is building houses the way we build houses?

MR. BANAHAN: Commissioner, Steve Banahan, Pleasant River Lumber.

COMMISSIONER WILLIAMSON: Yeah.

MR. BANAHAN: We do export eastern white pine to the Middle East, to the U.K., to many other countries. So eastern white pine is exported quite a bit.

The biggest obstacle to exporting is our strong dollar. Exchange rates are just everything when it comes to importing or exporting. And we're fighting against a very strong tide in that direction.

So you know, you're competing with other products that are closer. So freight is the second obstacle. But you know, as long as we can get there and we have a favorable exchange rate, we can export lumber. It's just that the U.S. is the best place to sell the lumber, which is why everyone else comes here, why the Canadians are
shipping and controlling 34 percent of our market and why
we're seeing wood coming from the -- you know, the Norwegian
countries and Austria, and Germany, and a little bit of you
know European influence as the market gets better.

COMMISSIONER WILLIAMSON: Okay, good. Okay.

Thank you. How useful are AUVs for price comparison and
trend analysis in this market? Were there likely
significant changes in product mix over the period of
investigation?

MR. YOCIS: It's a good question. I don't know
the answer to that. And since you don't know, it's hard to
say for sure that it's -- that there could not have been any
difference in product mix. But in general in the absence of
any evidence that there has been a big shift in the types of
products that are being imported from Canada, as you know,
Mr. Miller said earlier, what is wood? It's sort of the,
you know, types of products that Canada's producing are not
changing dramatically from one year to the next.

COMMISSIONER WILLIAMSON: Okay, we're not dramatically
changing the way we build houses for the most part?

MR. YOCIS: Yeah, I mean, unless there's some
change in demand. And I'm -- perhaps the witnesses are
aware of some change in demand for Canadian lumber or for
U.S. lumber for that matter, but I don't ^^^^ I'm not ^^^^
I'm certainly not aware of any major changes that would lead
you to conclude that there ought to the be some difference
in the product mix that should affect the AUVs.

COMMISSIONER WILLIAMSON: Okay, thank you.

MR. ROADY: So this is Chuck Roady. I don't
think there's any dynamic change in the product mix because
you only have the certain species that grow in your area.

COMMISSIONER WILLIAMSON: Uh^^huh.

MR. ROADY: So that's what you manufacture.
That's what you deliver to your plant. So as far as a
difference, you don't really have a lot of ability to change
that product mix.

COMMISSIONER WILLIAMSON: And also it's ^^^
it's not like there a different -- people aren't asking for
different shapes or different types of wood?
MR. ROADY: No, no.
COMMISSIONER WILLIAMSON: Okay. Okay. These
things we sort of check off --

MR. ROADY: No, that's well, I mean, it's just
-- I was trying to understand where you were going or what
you were getting at. And we can't just automatically change
that product.

COMMISSIONER WILLIAMSON: Yeah. Okay. Maybe we
should tell, there's no reason to go there. Thank you.
Given your arguments about capital expenditures being
negatively impacted by subject imports, what explains the
fairly sharp increase in such expenditures between the interim periods?

MS. DAUZAT: After -- this is Caroline Dauzat. After we came out of the recession, we got back to extensive capital investments in our mills and we were not able to do it during the downtime.

But what happens is you have to take downtime from your mill during good times to get these capital investments done at your location. But the explanation is we couldn't do it for us it was from 2007 to 2011. Things started to turn around a little bit in 2012. And so, we started aggressively with our investments in 2013 forward.

COMMISSIONER WILLIAMSON: Okay. Sort like at some point you got to do them?

MS. DAUZAT: Yes, to stay competitive in this industry, you have to make your capital investments.

COMMISSIONER WILLIAMSON: Okay.

MR. BANAHAN: Commissioner, Steve Banahan, Pleasant River Lumber. We held off on a lot of capital investments. And just like your computer at home, your computer at home is only good for about five to seven years. We spent $2 million last year just, just replacing computers in the building. And that's just an expenditure we couldn't make when we weren't making any money.

COMMISSIONER WILLIAMSON: Okay.
MR. BANAHAN: And we've held off on a lot of other major, major projects. You know, just to build a planer facility, for instance, $6.8 million. I mean, you just can't make those decisions until you're making money.

COMMISSIONER WILLIAMSON: Okay. Thank you.

MR. BENSON: And Mark Benson with pot latch. And to be clear, during this review period, 2015 resulted in a deferment of capital projects for us. We took projects off the table because of our performance in 2015.

COMMISSIONER WILLIAMSON: Okay. Thank you.

Just had one last question. Do you agree that demand is likely to increase in the near future? And does this alleviate the threat of material injury by subject imports?

MR. SWANSON: I believe that demand -- this is Steve Swanson. I believe that demand will increase, but there is -- the injury will still occur as our profits are diminished by the pressure of unfairly traded subsidized Canadian lumber.

COMMISSIONER WILLIAMSON: Okay. Good. Thank you. Oh?

MR. BENSON: Mark Benson. I would add to that that the record would show that what we've seen in the last few years has been as there has been more demand, Canada has captured more of that demand than what we have.

COMMISSIONER WILLIAMSON: Okay. Okay. Thank
you. Sorry for going over. Thank you.

CHAIRMAN SCHMIDTLEIN: That's all right. I think -- do you have any more questions?

COMMISSIONER BROADBENT: No, no more questions.

CHAIRMAN SCHMIDTLEIN: Okay. All right, that concludes the Commissioners' questions. Does the staff have any questions for this panel?

MS. HAINES: Elizabeth Haines. Staff has no questions.

CHAIRMAN SCHMIDTLEIN: Thank you. Do respondents have any questions for this panel?

MR. NICELY: No Madam Chairman.

CHAIRMAN SCHMIDTLEIN: All right, thank you. So this brings us to our lunch hour. We're going to take a slightly shorter lunch hour today. Two of us have child-related constraints in the earlier evening. And so, we'd like to -- you know we want to be as far done as possible by 5:00. So we will reconvene at 1:30 today. Let me remind you that the hearing room is not secure, so please take your confidential information with you. And we stand in recess until 1:30.

(Whereupon, luncheon recess was taken to reconvene at 1:30 p.m.)
AFTERNOON SESSION

(1:37 p.m.)

CHAIRMAN SCHMIDTLEIN: Good afternoon.

Mr. Secretary, are there any preliminary matters?

MR. BISHOP: Yes, Madam Chairman. With your permission, we will add Julia K. Eppert, of counsel with Hughes Hubbard & Reed to page 3 of the witness list. There are no other preliminary matters.

CHAIRMAN SCHMIDTLEIN: Very well. We will now turn to the Respondents' direct presentation.

MR. BISHOP: Madam Chairman, I would note that those in opposition to the imposition of the antidumping and countervailing duty orders have been seated. All witnesses have been sworn in, and this panel has 60 minutes for their direct testimony.

CHAIRMAN SCHMIDTLEIN: Thank you. Mr. Nicely, you may begin when you're ready, or Mr. Parnes.

MR. PARNES: If you don't mind, I'll begin. Thank you.

Good afternoon. I'll be brief, and then turn it over to Mr. Nicely. It's Eric Parnes, again, on behalf of the Government of Canada and the Joint Respondents.

Now at the outset I want to briefly address the significance of the 2006 Softwood Lumber Agreement, or the SLA, which there were some questions on this morning.
Now the SLA was signed in 2006, renewed in 2013. The U.S. industry agreed to renew it then. It expired in 2015 and it was followed, as you know, by a one-year stand-still period. It was place for 21 of the 42 months of the POI, and it provides important context in two ways.

First, the SLA provides evidence of the market conditions under which the U.S. industry previously believed that they were not injured and that no trade protection was needed. The U.S. industry agreed in 2006 and again in 2013 that it needs no protection when composite lumber prices exceed $355 per 1000 board feet, and Canadian market share remains under 34 percent.

Note that 34 percent was the share of U.S. consumption held by Canadian softwood lumber in 2001 when the Commission found no current injury in Lumber Four. It was also roughly the share in 2006 when the SLA was signed.

But the second point about the SLA is the most important. And that's that the SLA has not been in force since October 2015. And as you can see in the slide, shortly after the SLA expired members of the U.S. industry acknowledged that concerns about a flood of imports from Canada depressing prices were unfounded. Over the 13 months that followed, there was no trade protection and no trade investigation. What happened after the SLA expired should therefore be of particular interest to the
Commission, and my partner Matt Nicely will now explain what did happen.

STATEMENT OF MATTHEW R. NICELY

MR. NICELY: Matt Nicely here for the Canadian Government. Since the SLA expired in 2015, the domestic industry has improved by virtually every metric, as you see on this table.

Production, capacity utilization, shipments, gross profit, operating profit, net profit, employment, wages, productivity, assets, all up. And all in the absence of trade protection.

Based on their questionnaire responses, their brief, and their presentation today in which they mysteriously talk about both declining prices and declining financial performance when both are clearly up, you might think Petitioners are living in an alternative universe. Or, when you catch them being honest about their current performance, they claim they should be doing better in light of the business cycle.

Well they obviously can't deny the improvements as the data speak for themselves, so let's talk about their business cycle argument.

Petitioners claim that they must, quote, "capitalize enough on our good markets to carry us through the entire cycle." Unquote. But Petitioners offer no
analysis of the business cycle whatsoever—what drives it, how long it lasts, and so on. They merely claim that they are currently at the high point of the cycle. The evidence belies this claim.

Please look at the next slide which shows the industry's operating margins, apparent consumption, and housing starts since 1983. As you'll see, this industry is more profitable now than at any time for which the Commission has data over the last 35 years. And better even than in 2006, which Petitioners this morning said was a high point when they made 2.1 percent operating margins. That's at Exhibit 44 of Petitioner's prehearing brief.

Furthermore, during the POI, annual housing starts, shown here by the red line, range from about 925,000 in 2013, to about 1.2 million in 2016. These were lower annual numbers than all but one year, 1991, prior to the Great Recession, going back to 1983. And yet, the industry's average operating margin of 13.2 percent during the POI is more than double the average in any prior period for which the Commission has data, including the Lumber Four POI when the Commission went negative on current injury.

What's clear from this chart is that the U.S. housing market, the key driver of demand for lumber, is nowhere near recovering fully from the effects of the Great Recession. As a result, the industry is nowhere near the
top of the business cycle.

Indeed, as shown in the next slide, FEA shows us the significant amount of under-building that occurred in the wake of the Great Recession. The yellow triangle on this slide, a slide that FEA created not us, reflects the houses that would have been built but for the Recession. This created a tremendous amount of what FEA calls "pent-up demand" that will fuel increases in housing starts long into the foreseeable future as housing supply catches up to underlying demand.

Slide 10. This positive future outlook is echoed by every industry source, including the investor presentations of the Petitioners themselves. Look at Weyerhaeuser's forecast on this slide going through 2020 where they cite to the same FEA projections and pent-up demand that I just cited.

Next, Potlach. This is what Potlach projects, citing RICI forecasts and pointing out how we still haven't reached the annual 1.5 million average housing starts that were the norm since 1970.

The fact is, we're nowhere near the top of the business cycle, and the Petitioners know it. So using our earlier slide again with the forecasts added, demand is projected to go up and up and up for the next four years. The fantastic performance the industry has experienced
during the POI, and particularly since the SLA expired, only promises to be more fantastic in the future. As Weyerhaeuser's CEO had said last year, quote, "the future couldn't be brighter." This is clearly not an industry that can claim to be injured or threatened as a result of an oncoming downturn in the business cycle because there is no oncoming downturn.

Let me turn it over now to Jim Dougan to cover the earlier parts of the POI.

STATEMENT OF JAMES P. DOUGAN

MR. DOUGAN: Jim Dougan of ECS. Good afternoon.

First let's talk about price. There's no probative record evidence of under-selling by subject imports. The pricing data collected in the final phase show a preponderance of over-selling, and show that the instances and quantities of imports over-sold increased over the POI.

We acknowledge that these data do not provide comparisons of products sold to the same market. Nevertheless, they provide no basis to support a finding of under-selling by reason of subject imports.

Petitioners have scrambled to find alternative evidence of under-selling. First, they argue that the Commission should rely on the pricing data from the prelim, even though the Commission already declined to make any finding using these data.
In an industry with millions of transactions happening each year, the questionnaires yielded only 12 comparisons over 3-1/2 years. And even so, the prelim data are mixed, with seven instances of under-selling and five of over-selling. These data are no basis for the finding of adverse price effects.

Second, Petitioners argue for the use of third-party pricing data, but the Commission has previously found this to be inappropriate for purposes of its under-selling analysis and should make the same finding here.

The other evidence on price effects is similarly lacking. As shown at page 97 of Respondent's prehearing brief, the amount of purchases allegedly switched to subject imports on the basis of price is only a small minority of reported purchases of imports.

Moreover, the prehearing report shows that only 4 out of 38 purchasers reported that U.S. producers had reduced their prices to compete with imports.

Finally, considering that the industry's COGs to sales ratio improved from 89.5 percent in 2015 to 78.5 in interim 2017, there also is no price suppression.

The lack of any price effects from subject imports is consistent with trends in the industry's performance over the POI. As shown at slide 17, prices and
industry profitability increased significantly from 2012 to 2013, fell slightly but remained high in 2014, then fell more substantially in 2015. Virtually all of that period, through October 12, 2015, was covered by the SLA.

In 2016, a completely free trade period after the expiration of the SLA, prices and industry profitability both increased strongly. The variation in industry profitability from 2013 to 2015 wasn't a business cycle where 2013 was the peak and 2015 was the trough, housing starts were roughly 925,000 in 2013 and just over a million in 2014.

So apart from the Great Recession years of 2008 to '12, these were lower than annual housing starts in any year, all the way back to 1959. So what happened? What caused prices and profitability to spike in 2013 and '14? And why, if demand in housing starts grew again in 2015, did prices drop?

The answer doesn't have anything to do with subject imports. Please take a look at this next slide. If there's only one slide I'd like you to focus on, this is the one. What it shows is that the modest increases in subject import market share bear no relationship to the wild swings in prices and the industry's profitability.

What's more, even after these increases, subject import's market share remained well below the 34 percent
threshold that the Commission had found to be not injurious in Lumber Four.

So let's take a year-by-year look at what happened. From 2012 to 2013, apparent consumption grew by 8.1 percent. So did prices. The average framing lumber composite index, or FLCI, jumped by 19 percent. So did domestic producers' operating margin, by 8.7 percentage points. But here's the thing: So did the market share of imports from Canada, by 1.6 percentage points.

Between 2013 and 2014, apparent consumption grew again by 7.3 percent, and prices remained high falling only a fraction of a percent. The industry's profitability remained high at 15.7 percent. The market share of subject imports grew again by one percentage point, less than in the previous year.

In 2015, apparent consumption grew again by 3.9 percent, slower than in the previous two years. Prices dropped by 13.8 percent and the industry's operating margin fell by 10 percentage points. But subject import market share increased by only 1.5 percentage points, which was less than in 2013 when prices and the industry's profitability spiked. The idea that the 2015 price drop was attributable to imports therefore makes no sense.

It makes even less sense, considering what happened in 2016. Subject import market share increased by
the most of any period in the POI, 1.9 percentage points, and yet prices increased by 4.8 percent, and the industry's operating margin increased by 5.6 percentage points, practically doubling.

Increasing subject imports cannot logically be responsible for both declines and increases in prices and profitability. So if not imports, what did explain the variations in prices and profitability between 2013 and 2015?

As Respondents explained at pages 113 to 119 of our prehearing brief, these variations were the result of a price bubble followed by a price correction, all driven by domestic producers' varying ability to supply the market.

In early 2013, industry analysts and the industry itself acknowledged its inability to keep up with an unexpectedly strong improvement in the housing market in late 2012 and early 2013. This was reflected in the fact that housing starts jumped by 18.5 percent from 2012 to '13.

The domestic industry was initially slow to react. The attrition in logging and transportation infrastructure during the Great Recession hampered the mills' ability to obtain logs, particularly in the U.S. West.

In the South, labor constraints also limited mills' ability to increase production. Moreover, there was
a lag between significant new investments taking place in
response to these prices and when the associated production
would come on line. A large portion of this new production
did not come on line until the first quarter of 2015.

This increased production, along with the fact
that 2015 demand grew more slowly than had been previously
predicted, drove down overall prices. This is not post
facto theorizing on Respondent's part.

While prices soared in 2013 an 2014, members of
the Coalition and industry analysts alike were commenting
publicly about how the domestic industry was struggling to
ramp up production quickly enough to adequately meet demand,
and how that kept prices high.

In early 2013, Random Lengths noted that demand
had outstripped supply as early as the second half of 2012.
In first quarter 2013, Potlach COO, Eric Kramers, noted,
quote, "A fundamental imbalance between supply and demand."

In fourth quarter 2013, Weyerhaeuser's CEO Doyle
Simmons, noted that his customers were concerned about
going adequate supply from them.

In April 2014, Random Lengths cited persuasive
evidence of companies' increasing efforts to expand output.
But by November 2014, however, Lumber Advisor noted that new
production coming on line in first quarter 2015 would hold
down prices.
By December 2014, Lumber Advisor opined that industry expectations of housing forecasts were becoming more pessimistic, and that they expected starts and therefore consumption to, quote, "disappoint on the downside."

So while demand grew by 3.9 percent in 2015, it was slower growth than in the prior two years. And the additional domestic capacity was coming on line at the same time, leading to a decline in prices.

The foregoing explanation makes far more sense than attributing the changes to subject imports, as Petitioners do. This is especially true considering that all of the price declines in 2015 preceded the expiration of the SLA.

As shown at slide 27, the absolute price trough during the POI was in September 2015, the month before the SLA expired. From that point forward, prices increased significantly, even before the Petition was filed at the end of November 2016.

And as discussed earlier, subject import volume an market share increased the most from 2015 to 2016, and yet prices and profitability increased. The facts simply do not support the notion that imports have had adverse effects on the domestic industry.

MR. NICELY: Matt Nicely again. So let's talk
about the interim periods, slide 29. I'm going to start
with the same slide I started with earlier. As you see
here, the industry's profitability improved again between
interim 2016 and interim 2017 to 17.5 percent, which is
above its 2014 level and is nearly the same as in 2013,
which was the industry's highest margin on record.

Petitioner wants you to ignore this period of
time because they say it's tainted by the investigation.
You should reject this argument because the industry's
performance improved for reasons having nothing to do with
the investigation.

Consider housing starts, which the Census Bureau
shows have continued their climb up since the Petition was
filed. So demand for lumber continues to grow and,
importantly, Petitioners agree, as Weyerhaeuser's CEO talked
about the uptick in housing starts in the first half of 2017
during the company's recent second quarter 2017 earnings
call.

So increasing demand is pushing higher--pushing
prices higher, not just for lumber but for other building
materials we well. Look at what Weyerhaeuser's CFO said
about these prices in the same two Q-2017 call where he
referenced continued strong pricing for lumber, OSB, and
ingenerated wood products during the first half of 2017.

And indeed it's true. As shown here, slide 33,
prices have increased not just for softwood lumber but for other housing materials as well, including structural panels. And as you see, those prices continue their upward trend even during the gap period when the provisional CVD measures were lifted. All, as you'll hear from Canfor's Mark Feldinger and our NEHB witnesses today, there's no expectation that those prices will fall regardless of this case.

Indeed, slide 34 shows that when specifically asked about the effect of this investigation, including the preliminary duties, Mr. Simmons at Weyerhaeuser said that the, quote, "uncertainty around the SLA has driven volatility in pricing, but the overall pricing trend has been driven by fundamentals of supply and demand."

Unquote.

The fact is, the industry as a whole is very successful and its fortunes are going nowhere but up. Let me show you this confidential slide that's in front of just you, the Commissioners. So as you'll see, sitting before you this morning were some of the most profitable companies in this industry.

Now we recognize that some companies in the industry are not doing as well, including a few of the companies that are represented here today. But that has nothing to do with subject imports.
The companies that performed comparatively worse were largely located in the West, which have identified limited timber supply as contributing to the very tight relationship between timber costs and lumber prices.

Take a look at the next confidential slide in which a key U.S. producer specifically admitted to this tight relationship. Potlach executives said the same thing during their most recent earnings call, indicating that, quote, "northern saw logs are indexed to the price of the WWPA Lumber Index," unquote.

This is a known phenomenon out West, and it explains why some companies in that part of the country, particularly those with their own timberland businesses, are not doing as well as others, even though demand for lumber and lumber prices are on the rise.

This is also consistent with record data. As we set forth in our brief and show again here, out West timber prices track lumber prices. But in the South where timber is abundant, timber prices remain relatively stable while SYP prices vary. The well-known and fully acknowledged effect of limited western timber supply explains why some members of the industry aren't doing as well. It's not imports.

MR. DOUGAN: Jim Dougan again. In its brief the Coalition claimed that the domestic industry has maintained
profitability at the expense of investments necessary to maintain long-term competitiveness in the U.S. market.

The statement is flatly incorrect and betrays a fundamental misunderstanding of basic accounting principles. Capital expenditures affect the cash flow statement and balance sheet. A company cannot increase or decrease its profitability by electing to make different levels of capital investments.

The question for the Commission is whether the profits and cash flow generated by the domestic industry's operations were sufficient so support a level of capital expenditures necessary for future growth and competitiveness. The answer from the record is a resounding Yes.

I show on the next slide the domestic industry's capital expenditures far exceeded its depreciation expenses over the POI, meaning that it was not just restoring depleted assets but adding to its asset base.

This is obvious from the fact that the domestic industry's assets increased by 24 percent from 2014 to 2016. This industry has invested billions, $2.5 billion, over the course of the POI. Any observed decline in Cap X from 2014 to 2016 could only be evidence of injury if it was because domestic producers lacked the resources to make additional capital investments.
This was decidedly not the case. As shown on the next slide, in 2016 the low point of capital expenditures during the three full years of the POI. The industry generated $983 million in cash from operations. That is before investment activities like Cap X are considered. After deducting the $585 million in Cap X for that year, the industry still had $398 million in cash left over.

Over the full POI, the industry's operations generated about $3.5 billion in cash. After the roughly $2.5 billion in capital expenditures over the POI, the industry had almost another billion in cash on its books. And yet in its prehearing brief, the Coalition claimed that the industry, quote, "struggled to gather the capital necessary to invest." End quote.

This is nonsense. The industry has ample capital to invest, and has invested to the tune of $2.5 billion. But it has been strategic about doing so. As you saw from earlier in the presentation, despite strong growth over the POI, demand has not yet recovered to the levels before the Great Recession.

MR. DOUGAN: Domestic producers are being disciplined in how they bring new capacity online, less they increase capacity more quickly than demand would warrant. A mismatch in capacity and demand would cause prices and profits to fall, much like happened in 2015. So what are
the companies doing with all of this cash? As you can see, they've invested $2.5 billion in their lumber business, but in 2017 Potlach's CEO, Michael Covey, said "Our priority for cash that we are accumulating due to a strong lumber price remains both on timberland acquisitions with attractive returns.

Potlach, like the domestic industry as a whole, isn't struggling to gather investment capital. They're generating a lot of it and they are investing it, whether in the lumber business or in the timber business.

MR. PARNES: Now one reason the domestic industry can perform so well when Canadian market share increases is that the domestic product differs from the imported product. A great example of this you heard this morning Rex Lumber's story about Habitat for Humanity. Habitat for Humanity apparently chose to buy Canadian SPF lumber to build their houses rather than accepting free SYP lumber from Rex Lumber. That's pretty compelling evidence about species preference and attenuated competition.

In many respects, Canadian softwood lumber and the domestically produced softwood lumber are actually complimentary products and this helps explain the enormous Canadian investments in U.S. mills, which create jobs for U.S. workers. As you can see, West Fraser, a large Canadian softwood lumber producer has invested in extensive
production capacity in the U.S. and so has Canfor. Mr. Feldinger will explain why shortly. The complimentary nature of production from the two countries also helps explain why a large U.S. company like Weyerhaeuser has been operating in Canada for decades.

The two countries do produce some overlapping products, but more that are different. One important difference in production is species. In its preliminary determination, the Commission looked at the percentages of different species produced in the two countries, added up the percentages of each species produced in both countries and conclude that "Species common to both countries accounted for approximately 41 percent of U.S. production and about 95 percent of Canadian production in 2015."

Now that is technically true, but it's not very helpful to understanding the extent of species overlap and the potential for direct competition. If you look at the next slide, the volumes of shipment of each species to the U.S. market from domestic producers and Canadian producers is far more instructive. For instance, the U.S. produces more than 7 1/2 board feet of Douglas fir, while Canada exports only 414 million board feet of Douglas Fir to the U.S. That's the overlap in U.S. production and in imports from Canada of that species.

Now if you add up the common species, you see
that less than 9 percent of U.S. volume is the same species
as less than 22 percent of imports from Canada. So put
another way, 91 percent of U.S. production volume does not
overlap with volumes being imported from Canada.

Dr. Krutz will now discuss why the difference in
species produced in the two countries matter.

STATEMENT OF KIVANC KIRGIZ

DR. KRUTZ: Good afternoon. Kivanc Kirgiz, I'm
an economist with Cornerstone Research. We reviewed all the
studies since Lumber 4 that estimated the last substitution
between Canadian SPF and U.S. produced SYP Doug fir, we also
conducted our own econometric study. Prior literature in
our analysis show that there is limited substitution between
Canadian and U.S. softwood lumber in response to price
changes.

Petitioner has raised several criticisms of the
current literature. These criticisms, overall, are not
valid. For example, Petitioner argues that aggregation may
bias the estimates; however, the studies specifically
analyzed softwood lumber, even at the species level and do
not estimate inelasticities at more aggregated levels.
However, the criticisms raised concerns about the consistent
findings of academic research.

Low inelasticity of substitutions reflects the
actual economic behavior of purchasers in the marketplace,
not theoretical interchangeability of species. Even though
different species can sometimes be used in the same
application, in reality, customers do not switch between
Canadian species and U.S. species in any significant degree
in response to price changes. Questionnaire responses
reflect this behavior.

You will hear from Mr. Martin and Mr. Baalmann
that many builders and designers have species preferences
for different applications. Regional factors also limit
head-to-head competition between species in many geographic
markets. For example, U.S. Doug Fir is primarily produced
and consumed in the U.S. West. SPF does not compete with
Doug Fir in this region in any significant degree as only
about 10 percent of Canadian SPF is shipped to the U.S.
West.

We also analyzed the relationship between U.S.
housing starts and the market share of Canadian lumber in
the U.S. I understand that SPF is used relatively more in
housing construction and relatively less in other
applications. For example, SPF is no used in treated lumber
applications at all, while around half of SYP production is
treated.

You will hear Mr. Martin explain that most of
the lumber used to build the house is either Doug Fir or
SPF. Due to this consumption pattern, when lumber demands
from residential construction outpaces demand from other applications, the market share of SPF would be expected to increase. These slides show the percentage of lumber used in residential construction as well as the percentage of lumber in repair and remodeling. Those are the lines in black and gray.

The chart also shows that the market shares of Canadian lumber and SYP, so Canadian lumber is green. SYP is in blue. The chart shows that, historically, market share of Canadian lumber has moved with U.S. residential construction. On the other hand, market share of SYP is more tied to applications other than residential construction.

In our econometric study, we analyzed how demand for Canadian SPF changes relative to demand for U.S. produced SYP and Doug Fir as residential construction increases. The control for prices, repair and remodeling activity, that also impact relative volumes. Our findings confirm that, keeping all else constant, when housing starts increase the demand for SPF increases relative to SYP and Doug fir. The results are statistically significant and robust to alternative estimation techniques.

Our findings indicate that the growth in housing starts and the proportion of lumber demands from residential construction during the POI was an important factor
underlying the increase in the market share of Canadian lumber. Thank you.

STATEMENT OF EDWARD MARTIN

MR. MARTIN: Good afternoon. My name is Eddie Martin, CEO of Tilison Home Corporation, appearing today on behalf of the National Association of Home Builders or NAHB. I currently serve as Chairman of the NAHB Bill Pact and in that role I represent the interest of the NAHB members to our elected officials at the national level.

As you know, NAHB opposes duties on softwood lumber from Canada. I'm here to provide the prospective of a professional homebuilder. Under the leadership of four generations of family members over the past 85 years, Tilison has built over 30,000 homes in Texas. I, personally, have worked at Tilison for more than 25 years.

The housing market, and by extension the lumber industry, is cyclical. Overall, residential housing has been making a comeback in recent years. We're still catching up to pre-recession levels and projections going forward are very encouraging as the U.S. economy continues to improve and a large segment of the population reaches home-buying age. We are nowhere near the top of the current cycle.

To fully understand how rising demand for housing affects homebuilders and the lumber industry, it's
important to understand how lumber is actually used to build a home. I'm aware that at a preliminary conference back in December Mr. Miller testified that he thought builders in Texas would frame homes out of straw if they could and that Texas builders don't care what kind of lumber they use as long as it's cheap, as he reiterated this afternoon.

As a Texas homebuilder, I'm offended by that. The way we build homes at Tilison, which is broadly representative by other U.S. homebuilders across the country, is we use a mix of different species and dimensions of lumber for particular parts of the home. About 55 percent of the lumber we use to build a home is dedicated to wall framing, while 45 percent is used elsewhere, such as ceiling joists and rafters. We never use southern yellow pine to frame walls of a home and we don't use it exclusively in ceilings or roofs, so over 55 percent of the lumber in each home we build does not have southern yellow pine, and remember this is Texas where southern yellow pine is plentiful and in our experience always cheaper than Doug Fir or SPF.

I heard this morning from Ms. Dauzat that professional builders know that any differences between southern yellow pine and SPF are minor and don't matter much. That is flat wrong. We don't use southern yellow pine for wall framing because if its tendency to twist and
warp, which causes the drywall to buckle, upsetting customers and requiring us to come out and make repairs. In my experience, builders that rely on Doug Fir and SPF for this use do not switch to southern yellow pine. As between Doug Fir and SPF for framing, we never switch between the two based on price.

Even before Hurricanes Harvey and Irma, the U.S. lumber industry simply could not meet all the specific needs of homebuilders. In light of increasing demand, NAHB has been looking for other sources to meet builders' needs. In the last three years, we've been seeing more lumber coming in from Europe where the products share similar characteristics to SPF. There have been even reports of Russian lumber starting to enter the U.S. market.

In closing, I would note that this is a very trying time builders and their customers in Texas. As a result of Harvey, three Tilison model homes were damaged, 40 of our construction sites were affected, and 10 of my employees were significantly flooded. Moving forward, there is going to be a lot of rebuilding. Tens of thousands of people, like my employees, are going to be in a bad place, financially, and increases in material costs will have a real and lasting affect on their ability to have homes. The reality is that we're going to need significant amount of lumber, including SPF, to rebuild.
Sadly, it looks like the people in Florida are facing a similar situation. Thank you.

STATEMENT OF THOMAS BAALMANN

MR. BAALMANN: Good afternoon. My name is Tom Baalmann and I'm the owner and general manager of B&B Lumber Company. We're a family-run business in Kansas. We sell to everyone from commercial contractors to Do-It-Yourselfers, what I like to call weekend warriors. We pride ourselves on providing the same breadth of products that you'd find in a big box store with hands-on service.

I currently serve as the national director on NAHB's Board of Director and I'm appearing here today on behalf of the NAHB in opposition to this petition. I also serve on the Lumbers Futures Buying Committee of LBM Advantage, a dealer-owned cooperative with 441 independent dealers in 827 locations nationwide and a multibillion dollar purchasing power.

My work with LBM gives me good insight into the supply and demand conditions for lumber across the country. First, our customers, and I imagine most end users, have strong preferences when it comes to the lumber species used. This is the case, whether we are talking about residential construction or commercial construction. For a commercial construction, there is little substitution between lumber species because the structural engineers require certain
materials for certain applications. The engineer dictates the species to be used for the project and it is costly and time-consuming to deviate from those plans once a project is underway.

This is because the structural engineer has taken into account the specific physical characteristics of the species they have selected. Changes the species can drastically change the amount of lumber needed. For example, once the stud spacing has been set, the species of the lumber for the header is selected to ensure that it is strong enough to cross the span.

So when Mr. Banaham said at the preliminary conference that a condo project will list three or four different species and then pick the cheapest one that isn't how it works in the real world. For our non-professional customers, our business practice is to provide advice based off of building codes and part of the information that we provide is what species of lumber to use. The species we suggest might differ between our stores. This is due to the differences in building codes.

With residential construction, there isn't much substitution of species because of what I call the tribal knowledge. These builders learned how to build homes using a particular species and they don't switch. This is how they've always done it and this is what works for them to
meet the local building codes. For example, my local market
doesn't like using SYP for wall frames because of the
warping and twisting. The narrow dimension of SYP, like
two-by-fours, they just don't stay straight.

Now with Doug fir, you have to distinguish
between green and kiln-dried or KD, because they are not
interchangeable. In fact, our local building codes do not
even allow the use of green Doug fir. We also do not see a
lot of demand for dry Doug Fir for framing walls even though
it could be used. SPF is the prominent choice for wall
framing in my market.

In Tulsa, however, on the other hand, builders
have been using green Doug Fir to frame walls for
generations and may prefer it over SPF. As a result, there
are established distribution channels to get green Doug Fir
from mills to that market. These different preferences are
very real and we base our business practices on them. In
fact, LBM hires separate traders for each species of lumber
we monitor.

While we are on the topic of Doug fir, it is my
experience that western producers cannot satisfy all of the
demand. In our region, KD Doug Fir is in demand for
commercial construction because it is strong and it can be
used for longer spans than other species, unlike SPF, for
example. Prices for KD Doug Fir are getting put up in other
markets where the builders are accustomed to using it and
they have already established shipping lanes.

So for builders in our region, even if they
wanted to use KD Doug fir, they can't get their hands on it
cost effectively. Why have these producers been struggling
to meet demand, the logs are exported overseas where they
can get more money for them due to log constraints. Just
last week, I read in Random Links that Swanson curtailed
their mills in Oregon because there was no log deck to make
lumber from and I don't think I heard that this morning from
them. So with prices at historic highs, they have provided
no explanation why they cannot secure a log deck. Mr.
Swanson's experience is typical of the mills in that region
overall. Thank you.

STATEMENT OF MARK FELDINGER

MR. FELDINGER: Good afternoon. I'm Mark
Feldinger, the Senior Vice President for Energy,
Environment, Transportation, and Sourcing at Canfor
Corporation and a professional forester. I've been for
Canfor for 33 years. Canfor is one of the largest
producers of softwood lumber in North America. In Canada,
Canadian Forest Products, Ltd., or CFP, produces lumber at
12 sawmills in British Columbia and one mill in Alberta.
CFP's sawmills produce a variety of dimension lumber,
primarily, from spruce pine Fir or SPF and some Douglas fir.
In the United States, Canfor Southern Pine, Inc. produces a variety of dimension lumber from southern yellow pine or SYP at 11 sawmills operating in North Carolina, South Carolina, Georgia, Alabama, Mississippi, and Arkansas. The operations of CFP and Canfor Southern Pine are completely separate and are operated as different divisions in the company. CFP sells to its customers in the United States who are purchasing SPF and Douglas fir. Canfor Southern Pines sells to customers who are looking for SYP. While Canfor may sell SPF and SYP products to the same customers, the two operations do not intermingle or substitute customer orders from each other. They operate as separate entities.

The biggest issue that Canfor and other producers in British Columbia face is one of fiber supply. Since the late 1990s, BC forests have faced a massive outbreak of Mountain Pine beetle that has destroyed millions of hectares of pine forest. This has resulted in substantial reductions in harvestable fiber, which, in turn, has lead directly to mill closures throughout the BC interior. Since 2011, deteriorating fiber supply has lead us to permanently close four sawmills in British Columbia with an aggregate capacity of over 800 million board feet.

I understand that Petitioners have claimed that producers are unlikely to curtail or close production
capacity in Canada because of the risk of permanently losing
a license to harvest timber in government-owned forests. As
our experiences show, this simply is not true. There is no
minimum or mandatory cut requirement in BC or Alberta, no
obligation to process timber harvested from our tenures and
no restrictions on shutting down capacity when market
conditions compel that result. Mill closures are a fact of
life in BC and Alberta and a direct consequence of
diminishing fiber supply. I would add that during the great
recession the BC interior lost more sawmill capacity and
production than any other region in North America.

Faced with the prospective of declining fiber
supply in BC, Canfor began investing in sawmills in the
southern United States in 2006. The motivation was twofold.
First, the U.S. south has the most abundant and low-cost
fiber supply in North America. Second, the lumber produced
in the southern United States is southern yellow pine and
does not compete directly with and indeed is complimentary
to the SPF lumber we produce in Canada. So these
acquisitions brought us additional business while allowing
us to sell a different product that would not cannibalize
our existing U.S. business selling SPF lumber, but allowed
us to expand our business with our highly valued U.S.
customers.

Since 2006, Canfor has made a number of
additional investments in the South. We also made a number
of capital investments to upgrade and improve the
performance and competitiveness of the mills we've acquired.
We directly employ 1,345 American workers in our 11
sawmills. We focused our investment dollars on upgrading
sawmills and drying capacity. We closed facilities used to
treat SYP for outdoor applications so that we could
concentrate on sawmill production. Now treaters are some of
Canfor Southern Pines largest customers because, unlike
SPF, SYP is well suited for treating and there is a
substantial U.S. market for treated lumber. Considerable
SYP production goes to treating and this is a market that we
cannot serve from our Canadian sawmills.

As you know from the financial data we've
provided, Canfor Southern Pine has been extremely profitable
during the POI. We also have made significant capital
investitures in recent years and there have been no
impediments to that investment. Frankly, I don't know how
my colleagues testifying earlier today who produce SYP can
possibly claim that they're injured at all given the
current operating profits that we and they are making or
they have somehow lacked the cash flow to make additional
investments. That certainly is not our experience. Our
management is extremely pleased with the results from
Canfor's U.S. operations which have far outperformed our
Canadian operations over the past few years because of the lower cost of timber in the South and because the U.S. mills are closer to the U.S. market. Thank you.

MR. PARNES: I'll briefly address threat. Now we've already presented evidence that addresses many of the statutory factors. For instance, prices and volumes are trending upwards and all indications suggest that will continue as demand increases. In addition, there's been no affirmative finding by Commerce with respect to any alleged exports subsidy or any subsidy that would increase subject imports.

There are also significant constraints on the capacity of Canadian producers to increase volumes. The affects of the Mountain Pine beetle on timber supply in British Columbia constitutes one of the greatest ecological disasters of modern times. As U.S. Coalition members have acknowledged, the damage from the pine beetle constrains the ability of BC mills to increase production to meet growing U.S. demand. As Potlach's chief operation officer said in 2013, the affects of the Mountain Pine beetle are like a ticking time bomb. And as you can see, if you look at the screen, you can watch how the explosion has happened.

The green on that first slide represents the pine forest areas, which, historically, fed around 50 percent of the BC lumber production, now the red that's
coming in that shows pine killed by the beetle. Those dead
trees become less and less useable to produce lumber over
time. You can see the areas in gray at the end of the
sequence are those in which the majority of pine has been
dead for more than 10 years.

MR. PARNES: To make matters worse, 2017 saw
British Columbia's interior forests hit by the most
devastating forest fires in recorded history. Now these
fires consumed not only dead pine, but also extensive
non-pine forests that had been spared by the pine beetle.
At the same time, demand in the U.S. market is high and is
expected to grow well into the foreseeable future. There's
no threat of injury to the domestic industry.

MR. GROVE: Good afternoon. I'm John Grove --

STATEMENT OF MYLES S. GETLAN

MR. GETLAN: Good afternoon, Commissioners. I'm
Myles Getlan of Cassidy Levy Kent on behalf of Downie
Timber, Western Forest Products and Interfor. We're here in
support of separate like products treatment for cedar and
redwood.

Cedar/redwood is the only potential like product
for which the Commission solicited data, creating a separate
section of the questionnaire dedicated to this issue. The
Commission received more than sixty questionnaire responses
that provided information on cedar and redwood.
Unfortunately, the prehearing report is utterly deficient in providing this information. Virtually no tabulations and no narrative statements. For your reference, we've provided you with confidential exhibits that summarize the questionnaire responses, including tabulations that you typically see in a staff report. These data show that cedar/redwood is a separate like product and Canadian imports are not injuring U.S. cedar and redwood producers.

Significant U.S. producers and purchasers, including Weyerhaueser have expressed support for our request. We urge you to read our prehearing brief and we urge you to ask us questions. For now, I'm pleased to turn our remarks over to Mr. Rob Marusic of Selkirk Cedar.

STATEMENT OF ROB MARUSIC

MR. MARUSIC: Good afternoon. My name is Rob Marusic. I'm the sales manager with Selkirk Cedar, which is the sales division of Downie Timber. I've been with the company for almost thirty years. I've worked in every aspect of cedar business, including production and sales. I'm here to discuss unique attributes of cedar and redwood and why Canadian cedar does not injure U.S. cedar/redwood producers.

Cedar/redwood are recognized in the market as a distinct product group. Cedar and redwood are the only
natural durable softwoods. This means that cedar and redwood contain special tannins that make it naturally resistant to insect decay. No other softwood lumber species is recognized for its natural durability.

This natural durability and pleasing aesthetics makes cedar and redwood uniquely suitable for outdoor appearance application such as shingles, sidings, decking, fencing, arbors, trellises and playground equipment. Other softwood lumber are not used in similar applications, without undergoing significant treatment that transforms the product. Cedar and redwood are not used in structural applications because of its unique qualities and high cost.

Cedar production is an art, while structural and other softwood production looks to maximize recovery, cedar and redwood production focuses on extracting value from each log. But this comes at a cost. East cedar log requires multiple lines of sawing by highly trained sawyers, special equipment like plastic-coated chains, special handling procedures are used.

In addition, Selkirk waxes the end of every piece and adds water protection to every unit that it sells. All of this is why it takes longer to produce cedar than other lumber. Other softwood lumber's graded to NLGL standards. Our graders are not even certified to grade NLGL rules. Instead, we grade our cedar to proprietary
appearance grades.

Cedar and redwood are marked and sold differently than other softwood products. Part of my job includes traveling to customers to conduct product knowledge classes to train them how to handle, store and use cedar. This means that most of our cedar sales are made to specialty distributors. The distributors I deal with every day, folks entirely on cedar, or deal with cedar and non-softwood specialty products like composites.

All of this explains why cedar and redwood are priced multiples higher than other softwood lumber. Selkirk commonly sells cedar that costs more than $3,000 a thousand to customers who buy cedar and redwood. Customers who buy cedar and redwood aren't shopping around for other lumber or comparing prices.

For example, those looking to build a deck are not considering both cedar or treated Southern yellow pine because these products are sold to completely different market segments. The difference is just too great. In my sales job, I have no need to track trends or pricing for Southern yellow pine or any other softwood product. We simply don't compete with those products. Instead we compete with tropical hardwoods and composite-like plastics.

I also would like to take a moment to question
how the U.S. cedar and redwood producers can complain they
are injured. Everyone knows that there is limited supply of
cedar and redwood. In fact, our customers include a number
of U.S. cedar producers because they do not have adequate
log supply. For example, Selkirk sells significant volumes
of cedar to coalition members such as Stimson and
Weyerhaueser.

It boggles my mind that our customers are
seeking to impose duties on their cedar purchases from
Selkirk. Canadian cedar complements U.S. cedar and redwood
and supports a significant number of U.S. remanufacturing
jobs. I really don't understand why the coalition wants to
impose duties on these products. Thank you for your time.

STATEMENT OF JOHN GROVE

MR. GROVE: Good afternoon. I'm John Grove, VP
for purchasing of Oregon-Canadian Forest Products, or OCFP,
based in North Plains, Oregon. With me are Phil Gallas and
Geoff Goodale with FisherBroyles, representing OCFP and
seven other domestic specialty softwood lumber producers and
importers. We're all manufacturers and we specialize in
adding value to high-grade, fine-grain, old-growth Douglas
Fir, hemlock and Sierra harvested from Coastal British
Columbia.

We're here to urge the Commission to find the
old-growth timber described in our prehearing brief as a
separate like product, and the imports of such products from
Canada are not causing or threatening to cause material
injury to domestic producers.

Petitioner has acknowledged on the Commerce
record that no coalition member produces old-growth coastal
timber and that there may be little, or no, U.S. production
of such merchandise.

However, in a May 5th Commerce submission, U.S.
domestic producers, Herbert Lumber and All-Coast Forest
Products asserted that, "Fine grain timber of the Douglas
Fir species is produced by Herbert Lumber in Riddle, Oregon,
and it is our understanding that there are other U.S.
companies producing high-grade clears and hemlock, Douglas
Fir and Western Red Cedar."

Herbert Lumber and All-Coast filed the
submission with Commerce in opposition to our scope
exclusion request related to old-growth coastal timber on
the grounds that they and others domestically produce such
merchandise. As such, there clearly exists a separate
domestic industry that produces old-growth timber that
constitutes a separate like product from structural lumber.

Old-growth coastal timber differs significantly
from structural lumber. In terms of physical
characteristics, old-growth coastal timber is more
fine-grained in nature, more durable, dimensionally more
stable, and more valuable than structural lumber. Regarding end-uses, it is used as a premium appearance product in high-end applications including cabinetry, doors, windows and architectural millwork. In contrast, structural lumber products are mainly used in construction applications.

In OCFP's experience, old-growth coastal timber has been priced four times or more than structural lumber in recent years. Customers who purchase these products pay a premium because of their physical characteristics and qualitative differences. They do not consider structural lumber to be a viable substitute.

The substantial differences between old-growth coastal timber and structural lumber require the Commission to find old-growth coastal timber to be a separate like product. With respect to the separate like product, we note that the Northwest Forest Plan, which was enacted by the U.S. Government in 1994 to protect critical habitat, significantly constrains access to domestic old-growth timber and resulting volumes are insufficient to satisfy U.S. market demand.

Given this fact, and considering that the domestic industry is able to charge high prices for this separate like product, imports of old-growth coastal timber from Canada do not cause or threaten to cause material injury to the domestic industry. In summary, we urge the
Commission to make a separate like product finding relating
to old-growth coastal timber, and a negative injury finding
with respect to imports of this product from Canada. Thank
you for this opportunity to address you.

STATEMENT OF ELLIOT J. FELDMAN

MR. FELDMAN: May it please the Commission, I'm
Elliot Feldman of Baker Hosteller with my partner, Michael
Snarr. We represent Resolute Forest Products and the
Ontario Forest Industries Association and the Conseil de
I'Industrie forestiere du Quebec. We thank you for the
opportunity to discuss with you four points.

The first point, probably the most important,
has been the primary theme of the collective Canadian
presentation today. It is unusual for a petitioning party
to show up before the Commission with a record of boasting
about how well it is doing. With prosperity oozing from
every pore, the domestic softwood lumber industry has been
very public about its success.

Of course, it's always possible to say one would
have done even better but for competition, especially from
imports, but even on this file, there ought to be a rule of
reason. The domestic industry is enjoying unprecedented
profits in growth. There's nothing to complain about and,
after 35 years of inability to prove its case, it really
should stop complaining.
Our second point is that investigations of
Canadian forestry are, by necessity, province-specific.
Because constitutionally, the provinces own Canada's natural
resources. Provinces may be investigated only because, as
political subdivisions and consistent with the statute.
They are regarded as they must be in order to be
investigated as countries.

This point is important to the Commission when
it votes, as it must, on threat of injury. Each country in
an investigation is entitled to its own determination and,
as we believe we've demonstrated, Central Canada presents no
imminent threat to the prosperity of the domestic softwood
lumber industry. There's no record evidence to support a
finding of threat from Central Canada.

Were the Commission to agree, it would then have
to decide whether to cumulate Ontario and Quebec, the
provinces of Central Canada, with the other provinces,
assuming the Commission were to find an imminent threat of
material injury from any of them. The Commission has
discretion over cumulation. We urge that these provinces
not be cumulated.

The scenario is not far-fetched. The Commission
didn't find a current material injury in Lumber 4, but did
find a threat, albeit overturned upon judicial review. So,
should the Commission find a threat of material injury, it
should first acknowledge that Ontario and Quebec, for purposes of the statute, are countries, that there is not substantial evidence on the record that either one presents a threat of material injury to a domestic injury, and consequently, they should not be cumulated with other provinces should the Commission find any of them presenting a threat.

We want to add as to threat some consideration of reality. 2017 has been the worst year on this continent for forest fires. Senator Daines noted them in Montana, but British Columbia has never before experienced such losses. Huge tracts of potential lumber on this continent are gone. The mountain pine beetle continues to work its way through British Columbia, and the spruce budworm is decimating the forest in Quebec.

Provincial governments zealous about sustainable forestry have rolled back annual allowable cuts. There are neither sufficient trees to cut nor mills to process that would threaten the U.S. industry with increased imports from Canada. And on the demand in need side of the equation, think Houston and the lasting damage this Commission could do a looming housing crisis in the United States if it were to diminish affordable supply.

Our third and fourth points involve like product. Fortunately, as more than a decade has passed
since the Commission heard any arguments about softwood lumber and like products, our brief remarks may seem new. We urge that you consider them new. It was a failure to give them fresh consideration that led to the preliminary determinations.

The staff's preliminary report and the Commission's preliminary determination treated bedframe components as remanufactured products. They're not remanufactured products. They're not further processed. They're not produced at all in saw mills. They're not mere refinements or adjustments to structural softwood lumber. They're an entirely different product that could never be used to frame a house or for any other use or purpose characterizing softwood lumber.

The main reason given for not finding bedframe components a distinct like product is that they're remanufactured product, so a further processed product. That reason is incorrect. The second reason is that no U.S. producer of bedframe components ever showed up for this investigation, leaving the Commission short of evidence as to its factors for analysis of like products.

That's not a reason. That's a proof that there is no evidence of record that bedframe components are like other softwood lumber products and more, there's no evidence that anyone making bedframe components in the United States
is injured or threatened with material injury by imports
from Canada. Consequently, there's no reason at all not to
recognize bedframe components as a distinct like product.

And finally, eastern white pine, Mr. Bishop, if
you would provide the Commissioners with a couple of
samples, one of a Southern yellow pine stud, the other of a
white pine board. Hereto, there appear to be two supposed
reasons not to recognize eastern white pine as a distinct
like product. First, there's a near total reliance on
findings and determinations in Lumber 4. There is, however,
a new record here, and indeed, a new Commission.

Second, there's the argument that eastern white
pine may be an appearance grade lumber distinct from SPF or
southern yellow pine, but it's like other pines to be found
in the western part of the continent. No one has
represented or testified for any interest involving western
pines. There's no record about them.

Still, assuming arguendo that appearance-grade
pines are similar, how could that not make them different
from construction-grade pines? The bright dividing line the
Commission wants, it already has articulated -- between
construction-grade and appearance-grade lumber. On this
point, there's no disagreement from Petitioner.

Several references were made this morning to
this bright-line distinction. There are then errors in the
Commission's analysis. Perhaps the product of misleading testimony from petitioners, eastern white pine is not produced in the same mills or facilities as spruce pine fir. It's not packaged or shipped the same way, nor is it sold to the same customers. The extent petitioner has claimed otherwise, it has been less than candid with the Commission. And while Mr. Banahan emphasized distinct applications in competition, he didn't claim injury from Canadian imports. Because there is none. So, I'm here once again to say what I can about a species apart that needs a fresh start as the Commission rethinks what makes a product distinct. Eastern white pine meets best, the Commission's test. And there is no proof it could be used on a roof or a wall or a stall or to construct anything at all.

No one has claimed injury or threat. The Commission can no longer get evidence to support an argument in court that eastern white pine is species-divine is not different in every respect. Thank you very much.

MR. NICELY: That ends our presentation, Madame Chairman.

CHAIRMAN SCHMIDTLEIN: I enjoyed that. All right. Thank you very much. I'd like to thank all the witnesses this afternoon, as well, for being here to help us understand this case. And we will begin the questions with Vice-Chairman Johanson.
VICE CHAIRMAN JOHANSON: Thank you, Chairman Schmidtlein. And I would like to thank all of you for being here today. Respondents have argued that the petitioners have failed to explain why prices rose at the end of the period of investigation, even as production increased, and this is your brief at Page 118. Could this be post-petition effect? As petitioners have suggested in their brief? At Pages 45 to 46.

MR. NICELY: You're asking, Vice-Chairman Johanson, why prices didn't increase more? Go ahead.

MR. DOUGAN: I think Mr. Nicely may have actually addressed this earlier in the presentation. Jim, could you cycle back to the slides about 2017 with the OSB? I'm not sure what the slide numbers are, unfortunately.

Yeah, this sequence here, if the filing of the case and the preliminary duties are responsible for the increase in prices in the subject merchandise, that doesn't explain why they moved in lockstep with structural panels. So our argument is that there were demand factors in the market place that were acting on these different products the same way, causing both to increase.

The duties wouldn't have any effect at all on structural panels. So it was demand factors. And by the way, the executives from the coalition companies themselves echoed this, I think in the prior slide. There was one of
the slides where it said that it wasn't the duties, it was
supply and demand factors. So it's the Slide 34. So the
overall pricing trend. This is July of this year.

The uncertainty is driven volatility in pricing
but the overall pricing trend has been driven by
fundamentals of supply and demand. They were asked
specifically about the effect of the preliminary duties in
2017 and what effect that had on prices. And his answer
was, "Uh, not really, it's really just supply and demand
factors." So, we agree with Mr.Simons.

MR. NICELY: Vice-Chairman Johanson, I think
it's also important to understand what's happening after the
gap period, that everyone is concerned about, it seems that
prices might decline again because the CBD duties are
lifted, but in fact, the prices are continuing to go up,
even since August when that happened.

MR. FELDINGER: Vice-Chairman, it's Mark
Feldinger with Canfor, just to add a little more context to
that. Since the gap period has come into effect, our prices
have jumped by about $20 in the extended-order files with
everyone who's expecting and postulating out in the media
that the existence of a gap period would actually drive
prices downward substantially, if that preliminary duty was
taken off temporarily.

VICE CHAIRMAN JOHANSON: Okay, thanks for your
responses.

MR. BAALMANN: Mr. Johanson?

VICE CHAIRMAN JOHANSON: Yes.

MR. BAALMANN: Tom Baalmann from B&B Lumber.

Since the CVD gap has been created, I was kind of waiting for West Fraser or Canfor to call me up and say the lumber tariff has been taken off, Tom, so that car we were talking about last week is now 20% less. I never got that phone call.

VICE CHAIRMAN JOHANSON: Okay, thank you. Why does the industry's cost of good sale to net sales ratio increase from 2014 to 2016, and why doesn't this not demonstrate a cost-price squeeze experienced by the domestic industry?

MR. DOUGAN: Commissioner Johanson, Jim Dougan from ECS. There's more going on than just an end-to-end comparison there. What you have in 2014 in, as we established earlier, '14 as sort of a price bubble that was caused by this imbalance in supply and demand.

And so you had extraordinary profitability by the domestic industry. So you had a very, very low cognizant sales ratio relative to virtually any time in industry history. So the fact that that would increase from '14 to '16, which was, by the way, also another good year, doesn't really demonstrate price suppression.
In fact, what is most probative of this is that the COGS to sales ratio actually went up in '15 as prices fell in the market place, but after the SLA expired. So the 2016 being a free trade period with no export taxes from Canada and a significant increase relative to some of the prior periods in Canadian import volume and market share.

You saw the COGS to sales ratio go down. So more Canadian volume, greater market share, no trade restrictions, and the COGS to sales ratio improved. So, to me, that is evidence that there's no price suppression by reason of subject imports.

VICE CHAIRMAN JOHANSON: Could that be post-petition effect?

MR. DOUGAN: No, that was just 2015 to 2016.

VICE CHAIRMAN JOHANSON: Okay. Thanks. Based on the pre-hearing report data, domestic producers' market share declined 4.3 percentage points from 2014 to 2016, as seen in Table C-1 of the staff report. The bulk of this decline was lost to Canadian imports which gained 4 percentage points in market share, as also seen in Table C-1. Why does this not show a shift in market share away from domestic producers to subject imports demonstrating volume injury?

MR. DOUGAN: Commissioner Johanson, this is Jim Dougan again. We can refer to this slide as well, but I
think there's a couple things to remember about how to view changes in market share. We are in a growing market. So this isn't a flat or declining demand market.

The domestic industry was still able to increase its production and shipments to the market. It lost market share as a sort of mathematical point because the market was growing more quickly than their shipments. However, most of the increase in Canadian market share over the period that you described was in 2016 and that was the period where you saw a very significant increase in domestic industry performance.

So the largest bulk of that "changed market share" was accompanied by a significant improvement in domestic industry performance. So that doesn't -- there may have been a change in market share, but it didn't lead to what could be considered injury.

I think the other thing to keep in mind is, we are aware that, because of timber constraints in the west, some of the producers out there were unable to ramp up shipments. You know, we've done analyses and looked at how domestic producers in different regions have responded to these increased prices and increased demand.

And you see the producers in the south doing it a lot more. Those in the west, less. And they've got constraints in getting the fiber. So, you know, their
ability to respond to changes in demand in an increasing market are more limited than maybe their capacity figures would suggest.

VICE CHAIRMAN JOHANSON: Thank you. I think I know what the answer's gonna be, but I'm gonna ask it anyway. How's that? 'Cuz this is a subject with much discussion this morning, and I read about this issue quite a bit. Why is most Canadian volume shipped to the southern United States if domestic supply and production there is so high?

MR. FELDINGER: Vice Chairman, it's Mark Feldinger with Canfor again. Probably the best description for the -- the reason for shipping SPF to the southern United States is the product is in demand for certain applications.

So framing walls are predominantly done with SPF because of its characteristics. It's lightweight, it doesn't twist, it doesn't bend and it's easy to work with. Versus SYP which has challenges around that. So it's a customer demand, it's the market demand, and we are happy to help fill that demand on a go-for-it basis.

VICE CHAIRMAN JOHANSON: Okay.

MR. CAMERON: Commissioner? Don Cameron. Just one second. You know, there was a statement this morning that this whole issue of SPF and SYP have been solved
because you now longer use a hammer and nail, you use an automatic nail machine. And it doesn't solve the problem of the warp in the twist in the wood. So that's important to bring to the table. There is a reason that people are using SPF and it's not just because of a hammer and nail.

MR. DOUGAN: Commissioner, if I can -- Jim Dougan from ECS -- if I can add to that. To the degree that there is a large portion of Canadian exports going to the U.S. south, it's not manifesting itself in any kind of adverse effects because if you look at the performance of the southern producers is very, very, very strong. And so, again, this lends itself to the idea that we're dealing with a complementary product situation.

VICE CHAIRMAN JOHANSON: Okay, thanks for your responses. And Mr. Martin, you discussed this earlier, but I just wanted to hear a bit more. So I appreciate your contribution earlier as well.

MR. MARTIN: Sure, yeah. Eddie Martin. So we use southern yellow pine for forever in about, in dealing with the issues of the twisting, warping and customers and we got -- I kind of got tired of going out to customers' homes after they moved in and having to pull walls out and straightening them and resheetrocking, repainting and they were very angry 'cuz they had to take off work.

And we go with our billing supply company and
they said, "Have you tried either SPF or Doug Fir?" And we said, no, let's do some test homes. We did some test homes and let it sit for six months, and we had no problem. That was about maybe ten, eleven years ago. We have not had any problems with Doug Fir or SPF on any of our framed homes, on the walls.

VICE CHAIRMAN JOHANSON: And this is the buckling?

MR. MARTIN: The buckling, the waning, the warping, which pops the sheetrock and makes the wall wavy and customers don't like that. And then when you get a bad reputation and you don't sell any more homes. So it's important for us -- the other thing that we do is we build from the Texas Gulf Coast to the North Texas to Junction, Texas to Corpus Christi and so we have a wide footprint, and so it's important that we not have to go out and fix a home, so that's why it's so important for us to spend a little extra money at the front end to keep the customers happy.

VICE CHAIRMAN JOHANSON: All right, thank you. And, yes, Mr. Feldinger, a little quickly if you could. My time's expired.

MR. FELDINGER: Absolutely. Just wanted to draw attention to the stacked SPF lumber picture that you saw this morning which really was described as suggested fairly erroneously, that picture actually is a point-bearing
transfission carrying a load from up above.

   It's irrespective of the species, you still have
to frame that way, you have to carry either a beam or you
actually have to carry the ridge rafter from the peak of the
roof in terms of that load down to the foundation, and has
nothing to do with the species. So just from a
clarification point of view, the description was not
accurate and was quite misleading.

   VICE CHAIRMAN JOHANSON: All right, thank you,
Mr. Feldinger. My time's expired.

   CHAIRMAN SCHMIDTLEIN: Okay. Mr. Parnes, I
wanted to follow up on something you said in your
presentation with regard to attenuated competition and
preference for certain species and I guess substitutability
among the species and, of course, the Commission addressed
this in the preliminary determination and you have the
prehearing staff report which includes a fair amount of
information in which the staff concludes that these products
are at least moderately substitutable?

   And then when you look at Table II-9, in which
we ask purchasers whether or not they would be willing to
substitute other species for their preferred species for
different uses, you know, including roofs and framing and
decks and so forth. It breaks it out among the different
applications.
So I guess my question is, I presume that you disagree with that conclusion, that they are moderately substitutable, and my question is, what can you point to? What should we rely on if we were to reach a conclusion that would differ from what the staff report says?

MR. PARNES: Well, thank you for the question. I guess, at the outset, I would like to say that we do disagree with the conclusion that the species are at least moderately substitutable. But I also wanna make clear that's an issue that is important to us because it's true that we don't believe that and we think the evidence doesn't support it, but it also is not even remotely dispositive in this case.

Even if the species are moderately substitutable, that doesn't affect the performance of the domestic industry. It doesn't affect all of the indicators that show that there is no injury. So I just wanted to make that clear at the outset. We don't view this as a dispositive issue.

CHAIRMAN SCHMIDTLEIN: Okay.

MR. PARNES: As far as, I guess a few things on, on what you could look at, and also it would probably be helpful to give Dr. Kirgiz an opportunity to address this, too. But one of the studies that have been done, both prior to and since Lumber 4, which actually measure preferences
among purchasers, among builders, in terms of species.

Another is if you look at, and if you actually drill down the regions in which respondents to builder surveys express preferences for different species, you'll find that they are concentrated by region. So, although if you sort of take the entire country as a whole and say, well, look, you know, you've got Douglas Fir being used for the same application as SPF and the same application somewhere else as southern yellow pine, that may be the case.

It is often physically possible to use these things to build similar parts of homes. But the fact of the matter is, in particular regions, even down to particular cities, builders just don't. They show strong preferences for particular species. I think the lumber dealer and the builder here can probably address that, too.

CHAIRMAN SCHMIDTLEIN: Okay, then I guess the question is, even if you have a preference, would you be willing to substitute a different species? What the staff report shows is that sometimes, I mean, you know, we ask for always, frequently, sometimes, never, and there's a fair number of purchasers in the "sometimes" or "frequently" category. Not always, but, you know, it does happen.

MR. KIRGIZ: This is Kivanc Kirgiz. Just to add to that, we actually looked at the market behavior of
purchasers. We looked at the actual data. When relative prices change, do we see wide swings in volume of different species? We just don't see that in the data. And, you know, we hear that wood is wood, and then we hear that, you know, there are preferences, regional or by application. And I think the data speaks to that, that in the marketplace, actual substitution is fairly low.

CHAIRMAN SCHMIDTLEIN: Okay.

MR. PARNES: And I just also note, the responses and I don't have the exact numbers, but a significant number of purchasers also explained that they would have to change building techniques if they were to switch species. So there are barriers to doing that. And the fact of the matter is, again, if you look at the data about species consumption, and prices, it really just doesn't support switching.

And the idea, you know, southern yellow pine is consistently cheaper than SPF over this time period. The idea that Claude Howard stocks SPF at all when they are actually manufacturing southern yellow pine, it's literally a stones' throw away from their lumber yard, that speaks pretty highly to the fact that these are not perfectly substitutable products, that there is attenuated competition.

CHAIRMAN SCHMIDTLEIN: Okay.
MS. MOWRY: Commissioner? If I could say one more thing. Kristin Mowry, Mowry & Grimson on behalf of NAHB. I think it's important, two things, one is that the purchasers were not all home builders. The reason that we have home builders here and at the preliminary hearings is to give the experience that homeowners are using in these specific areas.

CHAIRMAN SCHMIDTLEIN: I think there's something wrong with that mic.

MS MOWRY: Sorry. So I, I was saying that the reason that NAHB is here is to bring you the perspective of the homebuilders and these are the people that are actually using the different species and the different applications. You've heard from our two witnesses today, and we had Barry Rutenberg and Rich Millman at the preliminary conference echoing the exact same things here.

So the purchasers were not all universally homebuilders. I would venture to guess not even the majority of the ones filling out the questionnaires are homebuilders. The NAHB couldn't have all 140,000-plus members come and testify, but these folks are representative of the people actually using this different species in the applications and I think, given the widespread recognition that the lumber industry is directly correlated to the homebuilding industry, it's shocking that the petitioners
have never produced a homebuilder as a witness to give
their perspective.

What they've given is speculation by the lumber
dealers, but not a single homebuilder to explain or to
contradict what our builders and our witnesses have said.
Thank you.

CHAIRMAN SCHMIDTLEIN: Okay, thank you.

MR. GETLAN: If I may, Chairman Schmidtlein.

This is Myles Getlan. If we're talking about
substitutability of species, I just need to mention, in
respect to western red cedar or cedars and redwood, really.

The table that you pointed out, Table 2-9, lists
a number of end uses and various species. We appreciate the
staff collecting information responses in regards to
cedar/redwood. You'll see those darkened boxes in the
"never" category for cedar and redwood for framing and wall
studs, headers, floor joists, roof trusses, roof rafters,
shipping and packaging. You see what appears to be some
overlap in regards to decks and deck structures and fencing.

In regards to deck and deck structures, just a
point of clarification, cedars would never be used as a
structural, as a deck structure, but maybe on the surface,
you would see different species on decks, which often
referenced it as treated southern yellow pine, so southern
yellow pine that has to go through an additional processing,
but even there, you heard Mr. Marusic from Selkirk Cedar, he
doesn't track southern yellow pine prices. He doesn't see
it. He's selling to specialty distributors for cedar.
That is not a competitive product and you see that in the
confidential exhibits that we prepared.

It's really just straight from the questionnaire
responses and Exhibit 1, you see the tabulation of
purchasers, importers and U.S. producers reporting that
cedar and redwood are simply not -- they're not at all
comparable when it comes to other softwood lumber. And the
reason is because of that natural durability that Mr.
Marusic discussed.

The other reason, which was acknowledged this
morning, is the price. And cedars and redwood are priced at
multiples higher than other softwood lumber, including
southern yellow pine. If you look at Page 7 of the
confidential exhibits, Exhibit 7, we say in our prehearing
brief that a picture is worth 1,000 words, you see here,
what's sticking straight from the confidential record,
Random Lengths' pricing and the price of cedar multiples
higher, not volatile at all. And so I appreciate that time.

CHAIRMAN SCHMIDTLEIN: Thank you, Mr. Feldman.
So one question for you is, as you know, and I think you
alluded to this in your presentation. In the prior
investigations, in Lumber 3 and Lumber 4 at least, and I'm
looking at Footnote 26 in our preround determination in this case, where we lay out that the Commission has considered all of these arguments, I believe twice before, and we considered them in the preliminary phase of this case, and we didn't accept them.

And so my question is, is there something different between what we considered in the prelim and what we've got now that you would like to point out?

MR. GETLAN: Very much so. Very glad you asked. Thank you. Myles Getlan. We actually learned from the Commission, candidly, because while western red cedar is among cedars and redwood. That is the dominant species in the market. Dominant -- it's still very small relevant to everything else you're talking about here today.

But it's the dominant species. That's really the only species for which the Commission had information in the past. But what the Commission has said in the past, but including in the prelim is that, well, there are some unique features or attributes of western red cedar, but there are other cedars that share those characteristics and same with redwood.

And we agreed and we, in thinking about, you know, what really ties them together as a coherent product group, it's that they are actually considered to be the only naturally durable species. So what we asked the Commission...
to do, in this final phase, is to collect information for cedars, all cedars and redwood as a group and compare that to other softwood lumber.

And so this is the first time in this final phase that the Commission is considering cedars and redwood as a group, as compared to all other softwood lumber, and the record is unambiguous. You have the tabulations that we would expect to see in the staff report.

Hopefully, we'll see it in the final staff report. You have over sixty questionnaire responses among producers, importers and purchasers. And it loudly speaks to the point that cedars and redwood are distinct. They are at a premium, appearance product that is, because of its natural durability, is for the outdoors.

Almost all of the consumption is for outdoor applications. If you're gonna use other species for appearance outside, you have to do something to it -- paint it, treat it, chemicals. And that's why you see purchasers, producers and importers speaking to the differences --

CHAIRMAN SCHMIDTLEIN: So are you all asking then that we find a separate like product for--not just for western --

MR. GETLAN: That's right.

CHAIRMAN SCHMIDTLEIN: -- redwood/cedar -- all cedar and redwood?
MR. GETLAN: All cedars and redwood, which are, like I said, we'll put in some additional information in post-hearing in terms of how these products as group are considered as the only naturally durable species. It's why it's the only species group. Actually, the big buck by Random Lengths, you know, sort of the encyclopedia of lumber, has one chapter for cedar and redwoods and that's the only chapter that is species specific.

CHAIRMAN SCHMIDTLEIN: And what about white pine? Eastern white pine? Are you arguing that's a separate like product from --

MR. GETLAN: We leave that to Mr. Feldman to argue, but it's certainly separate and distinct from cedars and redwood. It's, from our understanding, it's mostly an interior appearance product. Again, if you're gonna use it outside, you need to treat it or coat it in some way.

And you heard this morning on the panel, someone mentioned using eastern white pine for siding. Mr. Marusic could maybe speak to this, but they don't see that product as interchangeable at all, and there are major price differences that were acknowledged.

CHAIRMAN SCHMIDTLEIN: Okay. We'll come back to that, because I've far exceeded my time.

MR. GETLAN: Thank you.

CHAIRMAN SCHMIDTLEIN: Commissioner Broadbent.
COMMISSIONER BROADBENT: Thank you, Chairman Schmidtlein. This morning, the domestic lumber producers said that they didn't foresee any increase in demand as a result of the hurricanes. Do you all agree or disagree?

MS. MOWRY: Chairman Broadbent, thank you. Kristin Mowry on behalf of NAHB. We will definitely get you the -- some more accurate projections in the post-hearing, but I just want to point out some numbers that we have from FEMA on post Katrina. So I think the testimony this morning was talking about pulling out drywall and replacing, just doing some repairs.

And the FEMA numbers from post Katrina are -- there were about $300,000 total with -- homes with either major or minor damage, but there were 352,000 homes that were completely destroyed. So that's the number that we're thinking about in terms of the effect on the demand for lumber for rebuilding those homes. And I think it's too soon to right now with Harvey and Irma, but certainly, devastating and it's not looking good.

COMMISSIONER BROADBENT: So you would expect noticeable increase in demand --

MS. MOWRY: Yes. Specifically, we would.

COMMISSIONER BROADBENT: -- for softwood lumber?

MS. MOWRY: Yes.
COMMISSIONER BROADBENT: Okay. Yeah, I was surprised at that answer. I didn't quite follow it. Okay. Just kind of on my broader question that I asked the panel this morning, given that how long this trade dispute between Canada and the U.S. has gone on, is there a long-term solution that Canada might envision here that would get us to a reasonably copacetic place on lumber?

Maybe Mr. Nicely, you could answer that?

MR. NICELY: I don't think we're in a position to talk about long-term solution as in an agreement, but I think what we can say is that this is not sugar. This is not beef. This is not managed trade. We're in a situation where the agreement is no longer in effect. They have to prove that they have been either injured or that they're threatened with material injury by reason of imports.

And most oftentimes, petitioners will wait and file when they can actually prove at least material injury or at least that they are actually, you know, threatened. The facts of this case at the moment don't prove that. And so, it seems like we're at a moment in time where the notion of some other kind of solution doesn't apply, if they can't prove injury.

COMMISSIONER BROADBENT: Okay, so your sense would be where it's time to go to total free trade and lumber between the U.S. and Canada?
MR. NICELY: That's certainly where we are today. But we're not taking a position right now about an agreement, but that's certainly as we're sitting here today in this hearing room and having to face the notion of litigating, that's our position. COMMISSIONER BROADBENT: Okay. And then what is your sense on for where the market share trends would be going if nothing happens?

MR. NICELY: Well, I think the series of slides that Mr. Parnes showed you gives you some indication as to what's likely to happen with capacity in Canada going forward. That's certainly the case with regard to B.C., which is the largest producing portion of the country.

So as demand increases, you would presume that Canada would no longer be able to gain the kind of increases. There already, as I think Mr. Feldinger, can talk about, the industry's already at nearly, you know, 100 percent or not at 100 percent, but almost effectively full capacity utilization.

MR. FELDINGER: So just to add a little more color there, I would suggest over the last 35 years, some things have substantially changed in our industry. At the request of industry in the U.S., we've gone to an auction base stumpage base system. So supply and demand and market dynamics drive our log prices. And as a result, in very tight supply situations for logs with very strong demand and
increasing demand in the U.S., our log costs have jumped up by about 50 percent over the last five years, making business very challenging in D.C. We expect to see supply further constrained as the mountain pine beetle killed wood and reaches the end of what they call shelf life, which is, depending upon the growing conditions of wet or dry, up to about 15 years. So we're ending -- we're hitting the end of that cycle. So the supply is going to come off dramatically. And that is going to change the dynamic of supply into the United States and elsewhere.

The other piece that's changed, if you take a look at the volume of the logs that have exported out of British Columbia, I believe the stats would actually show that we're exporting more logs out of B.C. than are exported out of the Pacific Northwest.

So things have changed. The dynamics of trade have changed. And the industry in Canada actually was prepared to extend the old softwood lumber agreement. So we were prepared to sign on to managed trade. There still is an interest to do so. Has been publicly expressed by many of the CEOs. And it's just a matter of doing so under realistic terms. And so, there is an interest there.

But as has been expressed here, we're clearly in the thick of it relative to the proceedings. And the facts are very strong in the case from our perspective, so we'll
see where we go. MR. CAMERON: Commissioner?

COMMISSIONER BROADBENT: Mr. Cameron?

MR. CAMERON: Just one other thing that ought to be noticed -- noted in terms of the change that he's referring to. Look at the amount of investment that is made by Canadian producers in the U.S. A lot of capacity was shut down in Canada. And a lot of capacity was not only maintained, but increased here in terms of the Canadian investments. And that shows a significant confidence in the future of the U.S. industry.

We did hear this morning that U.S. producers -- now I will say U.S. producers for purposes of this proceeding not by their CEOs to their shareholders, are saying, well, I mean, we have to be really cautious about the future. And we don't know how we're going to do the investment.

Well, these guys have put their money where their mouth is and it's pretty significant dollars. And they've been extraordinarily successful with it. And that is a huge change from lumber 3 and a huge change from lumber 4. So I think that that's something that actually needs to be thought about.

COMMISSIONER BROADBENT: Mr. Feldinger, can you just summarize to me what you think -- how can we get a handle on what you think the beetle problem will have on
Canadian exports? I mean, how do we quantify that order of magnitude?

MR. FELDINGER: Certainly. Good question. So there are a number of public source documents out there. There are projections of fiber supply that are put out regularly by the province of B.C. and the chief forester makes determinations based on that. All of the latest projections would indicate there's about two billion feet of lumber production, which is going to disappear out of B.C. It's happening already, but an additional 2 billion feet over the course of the next six months to about four years. And we can submit data in terms of documentation to support that.

MR. DOUGAN: Commissioner Broadbent?

COMMISSIONER BROADBENT: Uh-huh.

MR. DOUGAN: This is Jim Dougan from ECS. I think there might be something that's helpful on this. At the -- we can resubmit this for you. It's not in our presentation from this proceeding, but from the -- that conference.

COMMISSIONER BROADBENT: Uh-huh.

MR. DOUGAN: The staff conference.

COMMISSIONER BROADBENT: Yeah.

MR. DOUGAN: Slide 9, we have a slide from Potlach's investor presentation, where they talk about what
they think will be the future effect of in Canada Canadian supply of the mountain pine beetle and the reduction and allowable cuts. And they estimate a forecast or reduction. This is Potlach. A forecast reduction in Canada softwood production of 10 billion board feet. And that's through 2020. So it's slide 9 of our respondent's presentation from the staff conference.

COMMISSIONER BROADBENT: Okay, thank you. Can you kind of draw for me your view of the domestic industry's ability to reinvest in its capacity and production and what's happened over the period of investigation?

MR. DOUGAN: Commissioner Broadbent, Jim Dougan here. Jim, could we go back to, gosh, slide it's the one with the 3.5 and the 2.5. Slide -- oh, here we go -- 42, please.

This is a summary of -- because we heard about -- there's a lot in the pre-hearing brief of the coalition about the ability and access to capital for -- of the domestic producers. And they use words like struggling and things like that.

And so we looked at the data. And as we said, this isn't even whatever they could get from the capital markets. This is the cash generated by this business for this subject merchandise. And they talked about how 2016 was evidence of injury, because it was less than what they,
you know, what they made in capital investments in 2014.

But they still made $585 million in capital investments and had another roughly $400 million in cash left over. So they weren't I mean, it wasn't because of lack of capital that they did that.

And it's, you know, over the whole POI, it's close to a billion dollars. So there must be to the degree that they have not made even more capital investments over the POI, there's there has to be a reason for it. And I think the most obvious one is they're not just going to willy-nilly pull all this money into building out capacity just because they have the cash, because demand hasn't caught up to where it was before the Great Recession.

They are being rational and strategic about how they roll this out, because if they're not, and they're going to cause a capacity glut. And you know, all of these profits that they're enjoying right now would go away if they just built that capacity with no regard to what the comparative underlying demand was.

COMMISSIONER BROADBENT: Yeah, Mr. Parnes?

Mr. FELDINGER: Just to add to that, Mark Feldinger. So we have been investing and you've seen that information in the BPI that's been submitted. We also are seeing significant new entrants into the businesses, as well as some significant external investments by others.
So the CR Pacific Mill on the West Coast about 400 million board feet of capacity in terms of a brand new mill there. The Klausner mill down in Florida, that is about 300 million board feet are the numbers I've heard. There's Blewer Mill that has just been constructed and it's about 250 million board feet. And Twin -- Two Rivers, I believe, is about 200 million is under construction and soon to start up.

So people are investing. There are no impediments for the existing industry to go. And others who are not even in the business and they are seeing the opportunities and are making those investments from what we can see.

COMMISSIONER BROADBENT: Okay, my time's expired. Thank you.

COMMISSIONER WILLIAMSON: Thank you. I also want express my appreciation for the witnesses this afternoon. This is for the NAHB. I know you submitted on the confidential record recent surveys that include data by species. Are there any presentations or other analysis of these surveys based on these data that are similar to the 2010 presentation that we have on the record that you could put on the record in this case?

MR. KIRGIZ: I believe there is a report that NAHB puts out based on these survey results. Perhaps you
could see it as well.

MS. MOWRY: We can take a look and see what we have, Commissioner Williamson, but I think the other thing we might do is look at the data that already had been submitted and see what kind of analysis we can come up with for you on that.

COMMISSIONER WILLIAMSON: Good, thank you, that would be helpful.

MR. KIRGIZ: In terms of the analysis, we all -- we looked at that data already. That data is a little bit different than the 2010 data in the sense that it provides a lot more detail at the regional level. So if you got that data carefully at the regional level, you'll see that species used different applications are very different from region to region. And there are big gaps between which species are used for which application in each of the regions. And we could submit some other analysis in the post-conference brief.

COMMISSIONER WILLIAMSON: Okay. And I guess it might be helpful. To what extent is -- are those differences traditional in custom to what additions are they sort of -- almost want to call hard science. You know, you got to do it his way because otherwise, it won't work or it's going to -- you're going to get a whole lot of you know --
MR. KIRWIZ: Perhaps --

COMMISSIONER WILLIAMSON: -- the screwy board, the twisted boards.

MS. MOWRY: Sure.

COMMISSIONER WILLIAMSON: You see what I'm getting at? Yeah.

MS. MOWRY: Kristin Mowry here on behalf of NAHB. And I'll let Tom speak to this a little bit as well, but I think -- I don't think we know what the exact dividing line is between what the tradition is and what just the actual performance is, but I found it -- in working with Tom that he used the term tribal knowledge. And when we worked with --

COMMISSIONER WILLIAMSON: Strong stuff.

MS. MOWRY: Yeah, strong stuff. And in the preliminary conference, Rich Millman talked about you use what your granddad used.

And so, I think everyone we've talked to has, you know, the term might be a little bit different, but they've all stressed to us how the tradition really is a big part of it. But Tom, I don't know if you want to say anymore?

MR. BAALMANN: No, I think Kristin hit the nail on the head there with that what they've used is what they want to use and it's what their dad used. It's what the
neighbor used. So they don't want to be any different, because then it might not sell the house because they use some inferior product or something different. So they pretty much stay the same.

And then it goes back to the shipping channels to get the product to the job site. We can't get dried up Fir to our market because it's used in other markets in the area and there's no established shipping channels to get it to me and to my market. So that goes back to the production channel of how it is distributed around the country.

COMMISSIONER WILLIAMSON: Okay. Okay, good.

MR. MARTIN: And if I may?

MR. BAALMANN: Sorry, no you go ahead, Eddie.

MR. MARTIN: Eddie Martin. If I may, to a large degree that's true. But like in Texas, different regions, the product looks different. It has to be built different. So if you're in Dallas/Fort Worth, the Dallas/Fort Worth housing market, the houses there actually built look very different than if you go to central Texas, Austin and the house is in Austin.

The same with Gulf Coast. And so, then you have to start looking on how to build those houses to make them ^^^^ the elevations look different, you know, the designs are different. And so, that leads to differences in regional at least in Texas in regional materials being used.
The -- kind of the bottom line, though, is there are certain things that you don't use. And that's like, for instance, something yellow pine when you're framing the house, the wall frames. But when you're doing the rafters and the ceiling joists or depending on whether you're using engineered wood products like LVLs and other eye i-joists, that makes a difference in the way you frame the house.

COMMISSIONER WILLIAMSON: I really should defer to Commissioner Johanson if he comes to Texas. But nonetheless, I guess the -- okay, that analysis quickly as -- and the reason we raised this question is sort of, you know, sometimes price, other conditions over time would change the shall we say the tribal knowledge and all. And I just want to know if any of that is going on here that we should take into account?

MR. MARTIN: Yeah. And as I mentioned earlier, like for instance, we use yellow -- southern yellow pine for a long time, but we kept having problems with it.

COMMISSIONER WILLIAMSON: Yeah.

MR. MARTIN: And we were looking for solutions for it. And that happens that's happened on, you know, finding materials. That happens on sheen goals. That's happened on OSB versus plywood and all -- lots of stuff where you look at it. If the house isn't performing, you
look for a material that make it better perform.

And more materials come out, you know, on a constant basis. And as a professional homebuilder, you want to make sure you're building a house that's going to perform for the people who are living in it, because it's their home. And they live their lives there.

COMMISSIONER WILLIAMSON: Okay. I understand.

MR. BAALMANN: And Mr. Williamson?

COMMISSIONER WILLIAMSON: Yes, uh-huh.

MR. BAALMANN: Tom Baalmann. The purpose of selling yellow pine, it's really inexpensive now as compared to spruce pine fir. But yet I have no customers come to me and want to switch over to southern yellow pine in my marketplace, even though they could save money if they framed the house with southern yellow pine over SPF in today's current economic condition.

COMMISSIONER WILLIAMSON: Okay. Thank you for all of those answers.

MR. KIRGIZ: I have one more.

COMMISSIONER WILLIAMSON: Go on, sure.

MR. KIRGIZ: If you looked at the questionnaire responses from one of the big box building of companies, they basically say that we don't really carry southern yellow pine for a framing applications, except for one or regional markets regardless of what the price is. And they
say we do that because customers don't use that, don't buy that. That also points to the fact that it's driven by customer preferences, not just price differences.

COMMISSIONER WILLIAMSON: Okay. Okay. Thank you for all those answers. If different species are made for different uses and certain species are mostly produced to be in the United States, why aren't there more exports from the United States to Canada of species like southern yellow pine and in fir?

MR. FELDINGER: I'll start with that. And basically, the U.S. supply is really unable to supply the U.S. market and therefore the impetus to spend more transportation dollars to try and take that product further afield there's no economic driver for that, so that's the primary issue.

MR. CAMERON: Commissioner, that is also the testimony this morning that you heard when you asked the same question. And basically, the witness -- I believe it was from Rex Home -- said, basically, well, this is where the market it and that essentially is exactly what she was saying.

COMMISSIONER WILLIAMSON: Except for, I guess we talked the white that was going to, or probably that was going to the Middle East, but that was kind of special.

MR. CAMERON: Yes, that was the second witness
who said, okay, so there are markets -- I mean that is what
the exports are -- they're opportunistic, but basically, the
issue is freight and freight to the Middle East on a ship is
not the same thing as freight here on a rail to Canada.

COMMISSIONER WILLIAMSON: Okay.

MR. NICELY: But again, that was for eastern
white pine, in particular.

COMMISSIONER WILLIAMSON: Yes, understood.

Okay, thank you.

How useful are the AUVs for price comparisons
and trend analysis in this market? Were there likely
significant changes in product mix over the period of the
POI? I asked this question this morning and I think I got
sort of a negative answer on that.

MR. DOUGAN: In a situation where we have lots
of very gradual data from Random Links or even from the
questionnaire responses, annual AUVs are probably not your
best bet. Now having said that, have there been significant
changes in product mix over the POI, I'll let the folks in
the industry answer that. My suspicion is, no, that at
least from PC's mix it probably remained fairly consistent;
however, the exception to that might be for non-subject
imports because if the country composition relative volumes
changed over the POI different countries might provide
different species, thereby, changing the product mix. But
between the U.S. and Canada, you know these folks can let me know if they think there was a change over time. My guess would be that it would not.

COMMISSIONER WILLIAMSON: Okay, anybody want to take that on? Yes?

MR. FELDINGER: I would think, if you take a look at the data, particularly, the European imports that have been coming in, they tend to be the appearance grade type product and increasingly have been going into the box stores, so they're competing head-to-head with our higher end products that we submit, we sell into the marketplace from Canada and from the United States; but that's primarily a spruce from Europe versus an SPF-type competition piece that's taking place.

COMMISSIONER WILLIAMSON: Is that for interior use?

MR. FELDINGER: So that's for framing use and it is for over-the-shoulder, so people buy four sticks of two-by-four, 8, 10, or 12-foot and they strip it to the roof of their car and they take it home and use it in a project as well. And that's one of the other reasons SPF is in demand in the box stores is it's light and the customers really prefer something that's easy for them to handle and so the eastern SPF is a good substitute for them.

MR. FELDMAN: Commissioner Williamson, I keep
hearing eastern white pine, so I can't resist intervening
for just a moment. Indeed, the discussion about the export
was about eastern white pine. That's an exportable product
because it's completely distinct from the other products in
the United States that aren't there for export, what you
were asking about expressly.

Eastern white pine is distinct for exactly the
reasons that it would be exported. And if I may return,
just for a second, stealing your time --

COMMISSIONER WILLIAMSON: Well, my time is over.

MR. FELDMAN: This is in reference to Chairman
Schmidtlein's question as well. Appearance grade lumber is
distinct from construction grade lumber. The comparison
that was made with eastern white pine with western pine,
ponderosa pine or whatever, perhaps, although we have no
record evidence whatsoever about those other pines. But the
reasons that have been given, historically, for not finding
the distinct like product for eastern white pine are
identical to the reasons that have been given about western
red cedar and it's the identical argument that has been
presented and they are as distinct as one another from the
construction grade lumber, which is the real subject here.

COMMISSIONER WILLIAMSON: Good thank you.

CHAIRMAN SCHMIDTLEIN: Vice-Chairman Johanson?

VICE CHAIRMAN JOHANSON: Thank you, Chairman
In the preliminary phase and in prior determinations regarding softwood lumber, the Commissioner found that prices of a particular species will affect the prices of other species, particularly, those that are used in the same or similar applications. Can you please discuss if you agree with this finding, and if so, what evidence the Commission should consider in its price affects analysis?

MR. BAALMAN: That is true that lumber -- well, one species to another does somewhat mirror, but that's also why we have brought in a trader that handles just the import of the lumber from Europe as well as we have traders that handle SYP, SPF, Emp Fir, Doug Fir, green Doug Fir, with our LBM Advantage Group because they are distinct and used in distinct areas of the building envelope based upon what the engineer or architect has called out for to carry the load of the house or building or wind resistance to the house. So we do use that as a guide, but for our practical purposes, we definitely look at each individual species as a stand-alone unit.

MR. DOUGAN: One thing I want add to that, I mean, there may be broad trends in prices that are similar among the species is because they're all subject to the same overall demand factors -- the housing starts and the repair and remodeling and that sort of thing, so that they all tend
to move up in a broad sense or down together is one thing. The fact that there may be a tradeoff between them based on smaller variations is something that -- and I think Kivanc can talk about this, but that doesn't really seem to be supported by the evidence. And we've even seen in the very recent periods there are divergences over time and there's been a particular divergence even in the most recent period. I don't know, Dr. Kirgiz, do you want to talk about that?

DR. KIRGIZ: That's correct. I mean, the fact that they move together doesn't mean that they affect each other. If they're impacted by the same demand factors, you would expect them to move together. And there was a chart that compared lumber prices with OSB prices, I believe. They also look like they are moving together. That doesn't mean that they affect each other. It's just that they are used in house building, so they are impacted by the same demand factors.

MR. NICELY: Vice-Chairman Johanson, I'd draw your attention to page 94 of our prehearing brief with regard to the point that Kivanc just made and to the point that Jim just made to page 87 of our prehearing brief, where you see the decline recently while all other prices or composites are going up you see the decline in SYP, but again, they're all moving together, for the most part, because they're reacting to the same particular housing
start demand upsurge.

VICE CHAIRMAN JOHANSON: Okay, thanks for your responses on that. Drawing Respondents, you all, at page 12 of your prehearing brief state "The expiration of the 2006 SLA in October 2015 also provides a dividing line between a period of managed trade and a period of free trade, which should inform the Commission's analysis."

Regarding the SLA on page 38 of Petitioners' prehearing brief, they state, "The SLA, which restrained imports somewhat during parts of 2015, is a relevant condition of competition for the Commission's analysis of material injury during the period of investigation."

So both sides seem to agree that the Commission's analysis should consider the data for periods pre- and post-expiration of the SLA in 2015, but differently -- in a different manner. Could you all please discuss how we are to treat this change in competitive conditions during the period of investigation?

MR. PARNES: Yes, I'll just start by pointing out, and then we can maybe talk about how the data moved before and after. But I think it is important to point out that, as I said initially, what you have, as of October 12, 2015, you have the end of managed trade and you have a period during which there was no agreement in place. There were no export restraints from Canada taking place.
There's no petition and yet, the performance of the U.S. industry was quite strong. So I think that's probably the most important thing to keep in mind about the SLA.

You know I think we've discussed some of the -- and I can ask Mr. Dougan to talk about some of the things that happened leading up to 2015, why the industry did so well in 2014. For instance, when, for the most part, there were also no export restraints in place. I mean, there are lots of different ways to look at it. Again, I think the most important thing is what happened after the SLA, but you can also look at what happened during periods when the SLA imposed absolutely no restrictions on imports from Canada. And those are periods when, in fact, the U.S. industry did quite well.

MR. NICELY: Just to follow up, I would also urge you to look again at what Jim presented today with regard to the 2013, '14, '15 periods to understand what was going on with supply in response to changes in demand, which had, again, nothing to do with the existence of the SLA or not. But I do also want to point out because I did circle the exact part on page 38 that you pointed out. I circled and underlined it because they said that imports were restrained during parts of 2015. They also say, oddly enough, that imports increased and that's why things got so much worse for them in 2015. So I ask them which is it? I
think it's clear you have to look at it a little bit more

1 carefully, as Jim did today, in showing what was happening
2 with supply and demand at that time.
3
4 VICE CHAIRMAN JOHANSON: Thanks, Mr. Nicely.
5
6 Okay, I asked this morning's panel about
7 environmental laws as they relate to timber and how they
8 might affect timber supply. The focus of their response was
9 necessarily on U.S. law and supply. How about in Canada?
10 Are there environmental laws or regulations in Canada that
11 impact timber supply in any significant fashion and is this
12 a condition of competition that we should be considering?
13
14 MR. FELDINGER: There are similar challenges in
15 Canada as there are in the United States relative to
16 wildlife, wildlife habitat, wildlife restoration. We've had
17 our issues with the spotted owl. We have set asides for
18 critical habitat for various species. And probably the
19 biggest issues that's looming in Canada, which is
20 significant, is the recover plans for aerial woodland
21 caribou. They've received a lot of press. The plans are
22 required by federal statute here by the end of the year and
23 the expectation is that this is going to further constrain
24 supply significantly because of the need to isolate and
25 protect various ranges for caribou across the country and
26 this will extend from -- it's happened already in
27 Newfoundland and will extend all the way from Quebec through
Ontario, Manitoba, Saskatchewan, Alberta, and BC. So we have more constrained supply conditions relative to logs coming our way, which will further exacerbate the challenge about meeting U.S. demand, collectively.

MR. FELDMAN: Mr. Vice-Chairman, you have a partial answer to this question an exhibit to our prehearing brief about the situation of the caribou in Ontario and its impact on reducing available cut.

VICE CHAIRMAN JOHANSON: They have a lot of territory they cover if they're going from like the Maritimes all the way to British Columbia.

MR. FELDMAN: They're unfamiliar with the borders.

VICE CHAIRMAN JOHANSON: Okay. I've got a thought in my head, but I won't say it because I'll upset some people about -- it seems like there are a lot of them, but I'm not going to go down that road.

Okay, I'm going to ask just one more question. I have a little bit more than a minute. And would you agree with today's First panel that certain infestations actually have the affect of increasing timber cuts and supplies? For example, the beetles in Canada destroying trees which then have to be processed.

MR. FELDINGER: I would agree that the historical pattern with infestations is when they occur.
There is an initial response, if that's possible, and Mountain Pine beetle in BC lead to some very large increases in cuts as a response to try and salvage what was vast areas of decimation and trying to recover economic value for the Crown, which owns the resource. That started really in the early 2000s. The infestation hit its peak in 2005. Cut levels were established at higher levels at that point in time and have been coming down on a steady basis and will continue to drop dramatically to go to a much lower midterm timber supply level forecasted by the chief forester in the province.

VICE CHAIRMAN JOHANSON: So the problem is abating somewhat; is that the situation?

MR. FELDINGER: Well, it's not that the problem is abating. It's just that the -- actually, the beetles themselves, by and large, have gone and what is left is a sea of dead trees. Those dead trees only stay upright for so long before they fall over. When they fall over and are lying on the ground, they start to rot dramatically on the underside and really are unsuitable for the production of lumber very shortly thereafter if they aren't burnt in a Fire, which we've been having increasing levels of.

MR. CAMERON: Commissioner, for purposes of this investigation, what it means is what they stated this morning was more of the historical fact, historical rather
than present because the increase was in the past, way before this. It was actually Lumber Four and actually during the period in which we were doing annual reviews and now we're talking about progressive cuts and annual cut and those are undeniable. So, no, the observation that they made this morning when it comes to the present period and the POI and going into the future is 100 percent incorrect.

VICE CHAIRMAN JOHANSON: Alright, thanks for your response, Mr. Cameron. My time has expired.

CHAIRMAN SCHMIDTLEIN: Thank you. So I want to follow up on that line of questions with regard to 2015 and you referred to Mr. Dougan's testimony and I'm guessing you're talking about Slide 19 with the four different charts, and correct me if I'm wrong, Mr. Dougan. And I read your brief and refer back to it here at page 114 where you talk about your theory of what happened from 2012 to '13 where you say at the bottom of 114 after you quote an economic analyst, I think, who was making a prediction.

And you say "This is exactly what happened. Prices soared in 2013 and remained high in 2014. These higher prices then resulted in higher production, which drove down prices in 2015." And so my question is when I look at the staff report at page III-7, which has a table on it which shows the industry capacity and production and capacity utilization that is not based on questionnaire
data, but it shows an increase of domestic industry
production of around 150 million board feet, if you're
looking at how -- 31496 to 31653. And then when I look at
capacity increase -- again, it's 37947 to 38124. I mean, it
doesn't look that large. And then I compare that to the
increase in the quantity from Canada from 2014 to 2015,
which was over a billion board feet, right, from 12143 to
13257.

So I guess my question is why would we assume
that prices were being driven down by what looks like a
small increase in production if the prediction was, well,
prices has spiked because they're worried that the domestic
industry won't be able to meet the demand and then you say
they did increase production and that drove prices down, but
when I look at the numbers it looks to me like, relatively
speaking, there was a lot more product coming in from
Canada. So why would I attribute that price decline to 150
million board feet increase for the domestic industry rather
than an increase of over one billion board feet from Canada.

MR. DOUGAN: Madame Chairman, that's a good
question and I will give you more extensive result in
post-hearing, but I think the answer, in part, is twofold.
One, a lot of it has to do with expectation and the prices
actually, as you pointed out, had begun declining in 2014
and there was an acceleration in 2015 when it looked like
demand was falling off.

And I've spoke to Mr. Feldinger about this yesterday a little bit as well and he can perhaps talk about it, but there's something to do with how prices react to expectations, both in demand and available capacity and production. And when there is this sort of future forecasting affect and how if that changes and things don't live up to what was expected there can be kind of very severe changes in price and I think that is what happened.

Now you're asking about why would it be that reaction relative to domestic production when there was a larger volume or large volume of imports, but when I go back to the question about what is the affect that imports are having on price I have to look at what happened with changes in import volume in other periods and what impact that had on price. And there were even large -- well, First of all, at the earlier part of 2015, the SLA was still in effect, so there were --

VICE CHAIRMAN JOHANSON: Well, let me ask you, if a billion additional board feet from Canada didn't have any impact on price, then what did cause the -- people were scared and then they realized, oh, we don't need to be scared, so prices came down?

MR. DOUGAN: That's -- there was -- I mean some of it was actually -- this is a correction from a period
where they were scared and so the prices, I think that the
fundamental of it is that the prices in 2013 and '14 were
basically the result of a mismatch and not like the
fundamental underlying demand which was growing and continue
to grow.

But the fact that additional imports came in that
didn't have that effect in 2013 and 2014 and they didn't
have that effect in 2016. So I'm left with okay, you had
these changes -- imports were increasing throughout the
period. We are not contesting that and they gained market
share throughout the period.

The changes in market share and volumes by the
way between '15 and '16 were even greater and yet that
didn't cause prices to go down -- and even in the absence of
any kind of trade restraint. So I'm left with why is it
that imports sometimes cause prices to go up and sometimes
cause prices to go down?

I mean I don't -- because we were wrestling with
--

CHAIRMAN SCHMIDTLEIN: Well that's my question
but if it is not imports then what is it, because there is
no non-subject and that sort of leads to my second question.
Why did the industry not do better in 2015? Why did they do
worse in 2015?

MR. DOUGAN: It looks like Mr. Feldinger has
something he can offer here.

CHAIRMAN SCHDMITLEIN: Okay.

MR. FELDINGER: Commissioner, 2013 and 2014 were characterized by an unexpected increase in demand which the industry had a challenge to respond to. And if you take a look at those prices, they're not really representative of what you would normally see towards the low end of the market if you take a look at overall market demand.

So we're well below historical consumption levels but the saw mill's ability to respond was limited and it was limited in all jurisdictions. People were actually challenged and were struggling to find product and that bid up the overall price. It took a while for capacity to respond to that.

Domestic production, as well as imports -- and brought those prices back to more normalized levels for the overall level of demand that you see in the marketplace.

What we've seen in 2016 and going forward again is showing a constrained supply situation where the ability to support, and particularly with certain species you are seeing it now with Douglas Fir and you are seeing it now with SPF, there's a disconnect that's happening relative to SYP because those species -- SPF and Douglas Fir have limited capacity to respond to the demand.

And those species are used in wall framing and as
housing construction continues to increase the only natural substitute tends to be European supply which we are starting to see hit the market today. So it's a bit of a timing issue and it is short-term supply/demand.

And the issue that we have observed relative to increased supply is you have to be careful that that supply does not get too far ahead of demand because it can have a significant impact even with just some minor increase.

And so that's -- we've seen some elements of that but we see on a go-forward basis clearly, that there are species that are going to be under significant price pressure in an upward basis just because of lack of supply and that really will be Douglas Fir and SPF from everything that we can see.

MR. DOUGAN: Madame Chairman, if I can just add to that -- the reason that we use the term bubble and correction is that the prices and profitability for '13 and '14 were higher than would have been warranted by the underlying fundamentals of the market.

They struggled to meet demand but they were also able to profit very handsomely from that fact that there was supply constraints and an imbalance and that they were able to basically command whatever the market would bear.

In some sense, 2015 it was a correction from that and sort of perhaps even an under-performance of what the
underlying fundamentals would have been because demand was still growing. It just didn't continue to grow as quickly as it had from '12 to '14.

So, in a way, you could almost kind of average it out between '13, '14 and '15 and see what their performance was because again it's a bubble and a correction. The idea that '13 or '14 is a reference point for a normal operating margin for this industry and that if they are not making that, that they somehow should be doing better is absolutely incorrect inference especially given the history of the industry.

And if I can just add one more thing -- Mr. Yocis said this morning that the Commission has never seen this kind -- the only time this Commission has ever seen the industry before was during a recession and therefore it doesn't have a reference point for what it should be doing when the markets are good, that's incorrect.

First of all I think Mr. Parnes pointed out 2006 which they said was part of the up cycle in their Exhibit 44 they show that they were earning at margin of 2.1%. Also, if you go back to number two which was not a recession -- that was between 1983 and 1986 where demand was growing very similarly to what it was during this POI.

They earn an average operating margin of 0.1% and Canadian market share in this POI and, number two POI, were
very similar.

CHAIRMAN SCHMIDTLEIN: So what's a normal average or normal operating margin?

MR. DOUGAN: I can't answer that question but I know 13% is a lot higher than what would be normal.

CHAIRMAN SCHMIDTLEIN: Okay but you don't know what normal is?

MR. FELDINGER: So the historic operating margins for the industry if you look back over say a 30 year period have typically been in the 5 to 7% range based on all of the public data that's out there.

CHAIRMAN SCHMIDTLEIN: Okay, okay.

MR. NICELY: And Madame Chairman we put that out on our slide 8 where we have given you some historical context as to what they've received in the past over those last 35 years.

CHAIRMAN SCHMIDTLEIN: Right, all right, thank you very much. Commissioner Broadbent?

COMMISSIONER BROADBENT: Yeah I just had one question. Mr. Feldinger, can you just summarize sort of the change in the supply management programs in Canada since the Softwood Lumber agreement was put into effect -- I guess that was 10 years ago or something?

MR. FELDINGER: Yeah so in 2006 the old Softwood Lumber Agreement was in place. Immediately prior to that
there was very substantive changes that were made in the BC Forest Management regime where things like the requirement to mill timber in adjacent saw mills from a community perspective were eliminated, it was called a pertinency.

The requirement to harvest or lose access to future harvests was eliminated from statutes so one could literally stop and shut down operations for years with no repercussions for your licenses going forward is the new normal for us, where that was not the case back before 2005.

And the auction system that was put in place replaced an old administrative CVP -- compared to value pricing system and we had a take-back of a portion of our cut -- about 20% of the volume that is harvested in BC is auctioned off through prudential government auctions that are open, they are closed seal bid and the highest price wins.

And there are upset prices that are in that process. Those options form the basis for the stumpage that we have to pay on the remaining tenure that we have access to and the dynamic relative to that has been very significant in terms of changing over the last 5 years as the supply of logs have dropped off due to mountain pine beetle and we are seeing that and I would suggest are as challenged or more challenged than the Pacific Northwest with their log supply challenges that they seem to have at
this point in time.

MR. FELDMAN: Commissioner Broadbent, excuse me Elliot Feldman, that's not unique to British Columbia. In number three, Department of Commerce found a one penny subsidy in Quebec based on a stumpage system that used private forest prices as the reference for the public forest.

Notwithstanding, the effectiveness of that system Quebec decided that the shrinkage in the size of the private forest was such that those prices could not continue to be a reference point and Quebec overhauled its entire stumpage system into an auction system, not entirely unlike British Columbia's system.

It's driven up prices significantly and is considered perhaps the most expensive stumpage in North America. But it is an auction system that is unassailable and that Quebec has been begging the Department of Commerce to examine and U.S.G. has examined for several years now.

So it is an entirely new system that was put in place and full effect by 2013, it's an entirely market-based system. So there have been transformations in the stumpage systems in Canada and part of the frustration -- you asked earlier about finding other terms for settlement.

The frustration on the Canadian side is notwithstanding whatever Canadians do, directed toward
demands of the U.S. industry and the U.S. government. Canada was told repeatedly that the ideal system for stumpage was an auction, so the two largest producers in Canada now have auction systems. There's been no recognition of that in the discussions about how to settle the differences. And the differences, when it comes to a question of settlement, must be understood is five times petitions filed by the United States industry.

Canada has not initiated any of this conflict but it has transformed its systems and it would like those transformations to in fact be recognized and understood in any terms of settlement.

COMMISSIONER BROADBENT: Okay, thanks.

CHAIRMAN SCHMIDTLEIN: I thank the witnesses for all of their testimony, it's very helpful. Commissioner Williamson?

COMMISSIONER WILLIAMSON: Thank you. So what is that load for softwood lumber demand in Canada? What are the trends for the underlying drivers of lumber demand, especially housing starts? You can go ahead and do it post-hearing.

MR. FELDINGER: Sorry to get you that answer we will give you that in the post-hearing brief. I don't have that information off the top of my head.
COMMISSIONER WILLIAMSON: Okay, fine, thank you.

Petitioners argue that our critical circumstances analysis should compare the periods before and after the expiration of the SLA in October, 2015. What is your response to this argument? And if you want to get that post-hearing you can.

MR. NICELY: Commissioner Williamson, Matt Nicely here. We addressed this in our pre-hearing brief. At the end of the brief our opposition is that you should be looking at what happened before and after the petition and at what the analysis is as to whether or not -- obviously your analysis is much different from the Commerce Department's because you're looking at whether or not imports entered in such a way as to undermine the efficacy of any relief.

The only way that's relevant -- the only way that makes any sense is if you look at what happened after the petition was filed because after all the only way in which you address the issue is by imposing 90 day retroactive duties.

So you are going to be looking at a period after the petition. Well, in fact what happened was that imports fell during that period which means by definition unlike any other case, although you haven't had one where you have gone affirmative on critical circumstances in a long time, but like any other case -- the only other case for instance
honey -- where this has happened, are cases in which you had
a huge run up in order to overcome the effects of any relief
that might be imposed.

And clearly if imports declined that clearly
isn't the case here.

COMMISSIONER WILLIAMSON: Okay, thank you. I
have some questions that I asked this morning so I wanted to
see what you all have to say about them. What assertions
are most useful for assessing demand for softwood lumber?
What should we be focusing on in our analysis?

MR. DOUGAN: I think most, the largest in --
well, housing starts is generally the thing that's used most
cfrequently and then that has traditionally accounted for, if
not the largest share of consumption, the second largest
share of consumption. I think it's been sort of vacillating
-- well since the Great Recession repair and remodeling has
taken over just because the housing market tanked basically.
The housing market has recovered and I think it
is on its way to resume its place as the largest driver of
softwood lumber demand maybe in 2018 or 2019, depending on
whose projections you believe.

So we think that the real growth in the market
that has been observed has really been driven by housing
starts. So we think that if you are looking for where
demand is going to go in the future that's really the
primary place to look.

If there are other things we can look at, we'll mention it in post-hearing but that's the big one.

COMMISSIONER WILLIAMSON: Thank you. Do you have any comments on any of the public data sources used in the various parts of the pre-hearing report? Are there any limitations or concerns with any of these data sources that we should be aware of -- it's something I asked this morning too.

MR. DOUGAN: This is Jim Dougan again with ECS. Yeah, there was as we mentioned in the pre-hearing brief there was a correction to import -- Census Bureau import data that should be reflected, we believe, in the final staff report.

We've provided information to where that census can be found. There are also some anomalies I believe in early 2017 having to do with third country imports. We can also talk about that -- minor, minor stuff.

Well actually I shouldn't say minor stuff. The Census Bureau correction 2016 is not de minimis. It has what we would consider a measureable effect but -- and then also just in general about you know, things like random links, you know.

That's useful for understanding trends and where things are going. Petitioners argue that you should use
that as a basis for an underselling analysis. We think that -- we disagree with that entirely and the Commission in the past has found that inappropriate. We think you should find the same way again.

MS. GRODEN: If I may, this is Cara Groden from ECS. With regard to the Census Bureau corrections it's not necessarily an issue of whether or not they should be considered their official statistical corrections published by a census bureau that were not made in time to be considered in the annual revisions that they publish every year in the late spring/early summer.

So these are not official corrections to HGS categories that are included within the scope of this investigation and should absolutely be considered to get an accurate picture of import volumes over the POI.

COMMISSIONER WILLIAMSON: Okay, thank you.

MR. NICELY: And, just to be clear what we are talking about Commissioner Williamson is July 2016 data that was fixed in June, 2017 and we have detailed it in our brief.

COMMISSIONER WILLIAMSON: Okay, thank you. If Commerce excludes Atlantic lumber board, certified lumber from the scope, what would be the best source of data to use to exclude such imports from our analysis?

I think someone this morning talked about
statistics Canada, so regarding raw data?

  MR. PARNES: Yeah, I think I was a little confused by the response this morning but I think that would be right. I mean there were no certifications because there wasn't a certification process prior to it being set up. But we know where lumber was imported from and if there were an exclusion on that basis that would be the way to do it by looking at statistics Canada data from the providence of origin.

  COMMISSIONER WILLIAMSON: Okay, go ahead.

  MR. NICELY: Thank you. I'm sorry Commissioner Williamson I just want to make another point about that. Subject imports are subject imports. Whether they have a certification before or after the -- before the decision or not, so you in fact would need to analyze the effect of imports without those -- not what it would be if non-subject imports were involved.

  COMMISSIONER WILLIAMSON: Okay, thank you. This is for Oregon-Canada Canadian forest products. You have a separate domestic-like product for old growth coastal timber but then state that there is little or no domestic production of this product.

  Under the statute we would have to define the domestic-like product as one most similar in characteristic and use. What exactly is your argument for the like product
and the domestic industry you want us to look at under the
terms of the statute? And if you want to do it now or
post-hearing?

MR. GALLAS: Philip Gallas, FisherBroyles for
Oregon-Canadian. We are looking at old growth coastal
timber. It is a separate-like product. It corresponds --
there is a separate, as kind of going in tandem with Elliot,
there is a separate industry here that -- domestic industry
that produces this fine grain old growth product.

I'm going to turn it over to Mr. Grove who wanted
and used to buy the domestic old growth product but because
of the National Northwest Forest Plan Statute in 1994 that
Commissioner Johanson referenced, there were constraints on
the domestic production.

There is domestic production but Mr. Grove was
forced to go and source from Canada this old growth product
that is totally separate product price-wise, physical
characteristics and so forth but let me turn it over to Mr.
Grove.

MR. GROVE: Yes, John Grove. If I may elaborate
a bit -- the products are a small segment of the industry
utilizes really are only available to us in sufficient
volumes from British Columbia in production at this time.

There's a limited production in the United States
but it is nowhere near enough to satisfy the market --
talking primarily about very high end Douglas Fir, Hemlock, and cedar products and you know, it's a secondary industry. We focus on re-manufacturing and fashion these products into items that end up in doors and windows and complicated architectural millwork projects and we just don't have the resource available to us from the United States production. We used to, you know, 30 years ago but it just doesn't exist today.

COMMISSIONER WILLIAMSON: But there is domestic production of --

MR. GROVE: A very limited amount, a very limited amount.

COMMISSIONER WILLIAMSON: Okay.

MR. GALLAS: He read from the Commerce record -- administrative record which we will append to our post-hearing brief. Herbert Lumber and All Coast stated on the Commerce proceedings that Commerce incorporated into their decision memo on this subject that they produced this product and that there are other producers of this product. But because of this, these environmental laws in the U.S., it has limited the U.S. production and therefore these are prices four times structural lumber. It's difference -- it's an appearance product and he has to import from Canada.

COMMISSIONER WILLIAMSON: Okay, my time has
expired but thank you for those answers.

    CHAIRMAN SCHMIDTLEIN: Vice Chairman Johanson?

    VICE CHAIRMAN JOHANSON: I have just one final question and it's not a very major one but I just want to find out. Respondents have argued that much of the lumber that the Canadian industry exports to Asia is not of the quality that is shipped to U.S. customers and that's at page 139 of your brief.

    Why is that the case and what is the difference in acceptable quality of lumber in the United States compared to other markets, including in Asia?

    MR. FELDINGER: Mark Feldinger here. We are a large participant in that market. One of the major defining differences are that historically the Asian market and particularly the Chinese market was one where wood was brought in for concrete framing forming support so it tended to be lower grade so economy utility product could go into that application and really that has limited application in the U.S. market.

    There is a move up the value chain in terms of consumption in China today where we are seeing our species starting to get used with the higher grades for furniture manufacturing and the building codes have been put in place so they actually now are able to and starting to build with wood similar to North America with up to 6-story walk-ups as
they call them for apartment complexes that can be stick
built out of 2x4 and 2x6.

And the marketplace elsewhere in Asia is fairly
mature so Japan has been a market there for many years and
they take even higher end products than we sell typically
into North America by categorization called J grade and
Korea is also a fairly strong market historically.

So you have different dynamics in play but really
the major change has been in China and they have been a low
grade market but they are moving up that value chain fairly
quickly. We're currently above 50% of our production is
going into China today would be of a similar grade to what
we would ship into the U.S.

VICE CHAIRMAN JOHANSON: Thank you, Mr. Cameron?

MR. CAMERON: Commissioner, just one further
observation -- it goes to a question that was asked earlier
by Commissioner Broadbent with respect to changes that have
occurred. If you remember back in lumber 4 -- exports were
not -- from Canada were not really -- to third country
markets, were not really very significant.

And in the case of Can 4 for instance, the major
market and really it was the third country market was J
grade to Japan which was, as opposed to what you are saying,
a relatively low-grade compared to the U.S. It was actually
a relatively high-grade and it was quite different.
And actually the J grade then bled into what we do as square edge in big box stores what has happened over time. Since that time other export markets have grown from Canada. China has become a big market. Korea and of course Japan remains but it means that the Canadian lumber industry actually has diversified its sourcing in its marketing and is not totally dependent upon selling to the U.S. anymore.

I mean it is a significant different from what you faced in the last lumber case.

VICE CHAIRMAN JOHANSON: Mr. Feldinger, is China using more wood because of for instance, earthquake issues or --?

MR. FELDINGER: So the building characteristics that are associated with wood are resistant to earthquake seismic events. They've unfortunately had a major earthquake with a significant loss of life in the Saskatchewan province and therefore that really motivated them to put in place building codes to support building with wood.

They have made a dramatic shift in their desire to build with wood and we are seeing some of the impacts of that. So yes, it's significant.

VICE CHAIRMAN JOHANSON: Thank you for your answers that concludes my questions.

CHAIRMAN SCHMIDTLEIN: All right, I have no
further questions, do you have any questions? No, okay, that concludes the Commissioner's questions. Do staff have any questions for this panel?

    MS. TURNER: I believe we have one question. This is Robin Turner, the Office of the General Counsel. There had been comments made about both British Columbia and Quebec that the stumpage systems have changed drastically since the lumber 4.

    And can you please provide in your post-hearing briefs the actual documentation that goes through the legal documentation that sets out the current -- the system as it now stands and if there is any other provinces that have changed drastically please provide that as well.

    MR. PARNES: Yeah, we'd be happy to do that.

    MR. FELDMAN: Absolutely.

    MS. HAINES: Elizabeth Haines, staff has no further questions.

    CHAIRMAN SCHMIDTLEIN: Thank you. Do Petitioners have any questions for this panel?

    MR. YOCIS: No, we do not.

    CHAIRMAN SCHMIDTLEIN: All right, thank you. So this brings us to closing statements. Thank you again to all the witnesses. You have been very helpful and I will dismiss you at this time.

    So for closing statements the Petitioners have no
minutes from direct and 5 minutes for closing for a total of 5 minutes. Respondents also have no time remaining from direct for a total of 5 minutes, so Mr. Yocis you may begin when you are ready.

CLOSING REMARKS OF DAVID A. YOCIS

MR. YOCIS: Thank you Madame Chairman and members of the Commission. The Respondents appear to enjoy quoting from U.S. producers and so I was struck in particular, by slide 34 of their presentation which is a quotation from the CEO of Weyerhaueser who says, "The overall trend in lumber prices that we have seen has ultimately been driven by supply and demand, overall pricing demand -- the overall pricing trend has been driven by fundamentals of supply and demand," and that's absolutely correct.

It's the supply and demand in the market as Mr. Feldinger said and I believe I said as well earlier this morning. Small changes, small imbalances in supply and demand can have big price effects in this industry.

And Canada, and unfairly traded Canadian imports affect supply as we have seen that Canada's market share has increased steadily throughout the period of investigation and the Respondent slide shows since 2012.

Every year Canada gains another point of market share or more. Every year Canada is adding yet another billion board feet of supply to the market. In times when
demand is outpacing supply, which you might say 2016 the
increase in demand was -- the demand was increasing faster
than supply.

    And in those periods, even though Canadian market
share is increasing, you don't see price decreasing as much
and perhaps even price increasing. Nonetheless, the
increase in Canadian market share is having an effect. It's
artificially increasing supply, if it is unfairly traded and
that is having the volume effect on U.S. producers and it
also suppresses prices.

    It suppresses the price growth that would
otherwise be occurring with a fairly traded volume of
Canadian imports in the market. And when supply is
outpacing demand, as it was in 2015, then Canadian market
share can increase only by depressing prices.

    In both types of market conditions, whether
demand was outpacing supply after the SOA expired in 2016 or
when supply is outpacing demand as it was through 2015. In
both situations Canada is increasing its market share,
Canada is -- Canadian imports are adding to supply.

    And if those imports are unfairly traded it is
increasing supply in ways that are detrimental to U.S.
industry either on volume or on price and over the period of
both. The SOA may have restrained Canadian imports somewhat
in 2015 but they did go up anyway.
The question was asked how is it possible that the SOA was restraining them but the imports went up? Well the answer is it didn't restrain them very much. Had they not been restrained it would have gone up even more.

There are always short-term fluctuations in supply and demand that might move things -- that might move prices in the short-term. Someone earlier -- I'm sorry I didn't see who, cited the Swanson Group -- there was a blurb on random lengths, I'm sure they'll put it on the record from last Friday -- I'm sure they will put it on the record, we can do it as well.

The actual quote -- I just looked it up is that the Swanson group curtained its Oregon mill because of low log inventories caused by fire restrictions that have reduced logging. That happened in BC a month ago. It's happening in Oregon now.

I understand that at Rex Lumber they were closed yesterday because of Hurricane Irma, it happens. I will say, however, that overall it is the large increase in imports from Canada that has added to supply and that has caused the problem for the domestic industry.

And if I could just conclude quickly since I see I'm running out of time -- on the question of investments Respondents say that the domestic industry has plenty of money for investments, we have just held back so as not to
add too much to supply and that is correct.

They say that we are going slow because of supply and demand. We don't want to outpace the growth in supply and the question is -- are we talking about supply that is artificially increased by unfairly traded, subsidized and dumped imports from Canada? Or are we talking about supply that is in a fair trade environment?

We believe that in a fair trade environment the industry would have higher prices, more production and be able to invest more for the future. With that we thank you very much for your attention today and look forward to responding to your questions in the post-hearing brief.

COMMISSIONER SCHMIDTLEIN: Thank you.

CLOSING REMARKS OF MATTHEW R. NICELY

MR. NICELY: Good afternoon, Matt Nicely again. After a long day I'll make it fast. If what the Petitioners said today was true, there would be no significant investment by community mills because apparently, according to the Petitioners, they can get all of their low-priced logs up in Canada.

If what they said was true there would be no increase in price during free trade periods. After all Canada -- the Canadian so-called wall of wood would be coming down in the United States and driving prices down during free trade periods.
If what they said was true the U.S. industry would be hurting like those who typically deserve trade relief usually are. But this industry isn't hurting and it doesn't deserve relief because what they say is disproven by the facts.

Canadian mills now represent over a quarter of U.S. production because it's a great investment, particularly down south where timber is so abundant. The only builders you've heard from are telling you the Canadian products are complementary with U.S. products.

That's why since the SLA expired this industry has thrived as prices went up not down, while imports increased the most. In the meantime, the industry has made a lot of cash and has made a lot of investments with that cash to the tune of 2.5 billion dollars and socked away another 1 billion for a rainy day.

Yet that rainy day is nowhere in sight. Demand is up and forecasted to keep going up for years to come as the houses not built during the wake of the Great Recession are now being built along with the natural increases in demand.

Don't be fooled by the business cycle argument. If you fall for it here, Respondents might as well give up in all cases as no amount of profitability and industry health is enough to avoid an affirmative determination.
I just spent a little time today talking about what you heard today from Weyerhausers and Potlach. These companies come to you not merely as lumber suppliers but as timberland owners as well.

Mr. Benson today admitted to holding his timber back until lumber prices go up. Is it any wonder that non-integrated western saw mills are performing less well? As soon as they catch a break with higher lumber prices, their fellow Petitioners, with integrated timber operations, drive up their log costs.

So while companies like Potlach and Weyerhaueser print money, these other companies lag behind. But that's not Canada's fault. They're doing it to themselves and it is amazing to me that Potlach and Weyerhaueser have pulled the wool over Mr. Miller's eyes, in particular.

In any event, I encourage you to look carefully at the performance of the mills that were represented here today. Now on threat, again, nowhere near the height of the cycle even without trade relief as shown by what happened in 2016 and by what's happening right now during the gap period as prices continue to go up. All signs are up.

Demand is booming, forecasted to increase further. And meanwhile, the mountain pine beetle shows you that there are significant concerns about caps in capacity in British Columbia, in particular, going forward. Other
provinces are not making up the difference as the staff report shows.

This is why other countries are slowly finding their way into the U.S. market to supply product like that which Canada supplies. We lawyers -- we all like the annuity that this case creates for our law firms, but we frankly shouldn't be counting on continued business from now until eternity.

This industry is not entitled to trade relief like you and I are entitled to the sun rising every day. I have been doing this work for over 25 years and this is as strong and negative Title 7 case as I've ever seen.

Usually the domestic industry waits to file their cases when they can at least make out either injury or threat. The industry that you have seen today has done neither, thank you.

CHAIRMAN SCHMIDTLEIN: Thank you very much. This brings us to the closing of our hearing. At the closing of a hearing I normally read the dates for the post-hearing briefs, closing of the record and final comments.

As you are aware the Department of Commerce recently extended its' investigations which has created some uncertainty with respect to our schedule. At this time I can announce that post-hearing briefs, statements responsive to questions and requests of the Commission and corrections
to the transcript must be filed by September 25, 2017.

The Commission will release shortly, a revised schedule that will have a record closing date and subsequent deadlines based on Commerce's extended dates for its final determinations.

Again, I'd like to thank all of the witnesses and the parties for being here and with that this hearing is adjourned.

(Whereupon at 4:25 p.m., the hearing was adjourned.)
CERTIFICATE OF REPORTER

TITLE: In The Matter Of: Softwood Lumber from Canada

INVESTIGATION NOS.: 701-TA-566 and 731-TA-1342

HEARING DATE: 9-12-17

LOCATION: Washington, D.C.

NATURE OF HEARING: Final

I hereby certify that the foregoing/attached transcript is a true, correct and complete record
of the above-referenced proceeding(s) of the U.S.
International Trade Commission.

DATE: 9-12-17

SIGNED: Mark A. Jagan

Signature of the Contractor or the Authorized Contractor’s Representative

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceedings of the U.S. International Trade Commission, against the aforementioned Court Reporter’s notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker identification and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceedings.

SIGNED: Christopher Weiskircher
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I hereby certify that I reported the above-referenced proceedings of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceedings.

SIGNED: Larry Flowers
Court Reporter